Capital Assets and Debt Administration (continued)

Capital Assets (continued)

- The Authority repaired steam turbines generator and replaced transformers and major electrical equipments of Palo Seco Steam units, which have 85 MW capacities. In addition, the Authority replaced the control room for all the units and switchgear for Palo Seco Steam Plant units two, three and four. The total cost of repairing the Palo Seco Steam Plant was approximately $125 million.

- The Authority is now constructing a 38-mile long 230 kV transmission line between the South Coast Steam Plant and Cambalache gas turbines plant's switchyard. The first stage of this project consists of the reconstruction and conversion to 230 kV of an existing 115 kV circuit line between the South Coast Steam Plant and Dos Bocas hydroelectric power plant. The second stage of the project consists of the construction of a new 230 kV line from Dos Bocas to the Cambalache facilities. The construction of both stages is expected to be completed during fiscal year 2013. The estimated cost of this project is $80 million.

- The Authority is also constructing a new 50-mile long 230 kV transmission line between its South Coast Steam Plant and the transmission center in Aguas Buenas. The construction of this new transmission line is expected to be completed during fiscal year 2015. The estimated cost of this project is $120 million.

- The program to improve the 38 kV sub-transmission systems continues in effect, including the construction of underground 38 kV lines in Guaynabo, Isabela, and San Juan. In addition, major reconstruction projects of aerial 38 kV lines in the central and western part of the Island will significantly improve the reliability of the sub-transmission system.

Capital Assets and Debt Administration (continued)

Capital Assets (continued)

- The Authority completed an underground 115 kV transmission circuit line around the San Juan metropolitan area in order to reduce the incidence of loss of power in the aftermath of hurricanes and other major storms, which strike Puerto Rico from time to time. This project is presently improving the reliability of its transmission system in San Juan by interconnecting two steam plants, three existing transmission centers, and four new 115 kV gas insulated substations (GIS) through a 30-mile underground loop of 115 kV. The cost of this project was $200 million. The Federal Emergency Management Agency provided $75 million for of construction for this project through grants to the Authority.

- Martin Peña GIS is a new gas insulated 115/38 kV transmission center with a 300 MVA installed transforming capacity. Palo Seco GIS, one of PREPA's major gas insulated 115/38 kV switchyards with direct interconnection to 600 MW of generating capability, was energized during fiscal year 2009 at a cost of $66 million. San Juan GIS, one of PREPA's major gas insulated 115/38 kV switchyards with direct interconnection through the existing air insulated 115kV bus to approximately more than 850 MW of generating capability, is expected to be in service during fiscal year 2012. A new gas insulated 38 kV substations in Isabela, is also expected to be in service during fiscal year 2011.

- Two major expansion projects to add 300 MVA of 115/38 kV transforming capacity in the transmission centers of Aguadilla and Ponce were completed and energized between fiscal year 2010 and the beginning of fiscal year 2011. A new air insulated 38 kV switchyard in the municipality of Aguadilla also started operating during fiscal year 2010. A new 150 MVA 115/38 kV transmission center in the municipality of Bayamón (Hato Tejas TC) as well as a major expansion projects that add 150 MVA of 115/38 kV transforming capacity in the transmission center of Canóvanas are expected to be completed during fiscal year 2011. In addition, a new 450 MVA 230/115 kV transmission center in Ponce TC is expected to be completed during fiscal year 2011.

Capital Assets and Debt Administration (continued)

Capital Assets (continued)

- The following projects are expected to be in construction for the next five years: a new 230 kV line between Aguirre steam plant and Cayey, the new transmission centers below: Venezuela TC in Río Piedras, Bairoa TC in Caguas, Barranquitas TC and Las Cruces TC in Cidra, to add 500 MVA of 115/38 kV transforming capacity.

- A new 115 kV capacitor bank is also expected to be energized in the transmission center of Canóvanas during fiscal year 2012.

These projects are funded from cash reserves, excess-operating revenues, grants, and debt issued for such purposes.

Additional information on the Authority's capital assets can be found in Note 6 to the financial statements.

Long-Term Debt

At the end of the fiscal year 2011, 2010 and 2009, the Authority had total long-term debt outstanding of $8089.0 million, $7,587.1 million and $7224.2 million, respectively, comprised of revenue bonds and other borrowings.

Authority's Outstanding Debt
(In thousands)

	2011	2010	2009
Power revenue bonds, net	**$ 7,895,288**	$ 7,572,024	$ 6,628,867
Notes payable	**193,700**	15,090	595,374
	8,088,988	7,587,114	7,224,241
Current portion	**(552,252)**	(187,368)	(1,448,414)
Long-term debt excluding current portion	**$ 7,536,736**	$ 7,399,746	$ 5,775,827

Capital Assets and Debt Administration (continued)

Long-Term Debt (continued)

The Authority maintains ratings of "A3" by Moody's, and "BBB+" by S&P and BBB+ by Fitch for its bonds.

Additional information on the Authority's long-term debt can be found in Notes 8 and 11 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

In the last five years, Puerto Rico's economy has shown a different behavior from US economy in term of the annual Gross Domestic Product growth, even though Puerto Rico is part of the US monetary and banking systems. The US economy, measured by the Real Gross Domestic Product (GDP), increased 3% in calendar year 2010. In the second and third quarter of 2011, real GDP increased 1.3% and 2.5%, respectively.

The economy of Puerto Rico is measured by the Gross National Product. For the fiscal year 2011, the Puerto Rico Planning Board estimated a decrease of .96%, according to their last forecast of May 2011. The main components of the PR economy are: manufacturing (approximately 40% of the GNP), finance, insurance and the real estate, trade and service sectors.

The Authority adopted the 2012 fiscal year budget on June 30, 2011. The total revenues for fiscal year 2011-2012 are projected to be approximately $4,927.2 million. In addition, the Capital Improvement Program amounted to approximately $326.5 million. The 2012 consolidated budget increased by $405.1 million (9.0 percent) when compared to the consolidated budget approved for fiscal year 2010-2011, due mainly to a increase on projected fuel oil price per barrel from $88.20 for 2010-2011 to $111.61 for 2011-2012, representing a 26.5 percent. In addition, the Capital Improvement Program increased by $26.5 million, representing a 8.8 percent.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority's Chief Financial Officer. The executive offices of the Authority are located at 1110 Ponce de León Avenue, San Juan, Puerto Rico 00907.

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheets
(In thousands)

	June 30	
	2011	**2010**
		(As restated)
Assets and deferred outflows		
Current assets:		
Cash and cash equivalents	**$ 64,856**	$ 81,646
Receivables, net	**1,182,468**	976,896
Fuel oil, at average cost	**228,007**	185,293
Materials and supplies, at average cost	**196,649**	178,897
Prepayments and other assets	**–**	3,364
Total current assets	**1,671,980**	1,426,096
Other non-current receivables	**95,407**	108,216
Restricted assets:		
Cash and cash equivalents held by trustee for payment of principal and interest on bonds	**313,531**	198,693
Investments held by trustee	**616,506**	433,496
Construction fund and other special funds	**244,444**	162,866
Total restricted assets	**1,174,481**	795,055
Utility plant:		
Plant in service	**11,156,611**	10,573,128
Accumulated depreciation	**(5,364,446)**	(5,022,563)
	5,792,165	5,550,565
Construction in progress	**1,020,437**	1,182,225
Total utility plant, net	**6,812,602**	6,732,790
Deferred expenses:		
Unamortized debt issue costs	**60,961**	63,914
Deferred outflows	**69,142**	109,938
Other	**47,772**	51,545
Total deferred expenses	**177,875**	225,397
Total assets and deferred outflows	**$ 9,932,345**	$ 9,287,554

(Continued)

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheets (continued)
(In thousands)

	June 30 2011	June 30 2010 *(As restated)*
Liabilities and net assets		
Current liabilities:		
Notes payable	**$ 193,700**	$ 15,090
Accounts payable and accrued liabilities	**1,251,690**	969,233
Customers' deposits	**39,505**	40,354
Total current liabilities	**1,484,895**	1,024,677
Current liabilities payable from restricted assets:		
Current portion of long-term debt and bond anticipation notes	**358,552**	172,278
Accrued interest	**183,314**	23,978
Other current liabilities payable from restricted assets	**69,408**	72,432
Total current liabilities payable from restricted assets	**611,274**	268,688
Noncurrent liabilities:		
Long-term debt, excluding current portion	**7,536,736**	7,399,746
Fair value of derivative instruments	**69,142**	109,938
Customers' deposits (excluding current portion)	**136,274**	134,431
Sick leave benefits to be liquidated after one year	**139,903**	128,810
Accrued unfunded other post-employment benefits liability	**123,616**	118,331
Total noncurrent liabilities	**8,005,671**	7,891,256
Total liabilities	**10,101,840**	9,184,621
Net assets (deficit):		
Invested in utility plant, net of related debt	**17,070**	161,389
Restricted for capital activity and debt service	**77,606**	136,053
Unrestricted	**(264,171)**	(194,509)
Total net assets (deficit)	**(169,495)**	102,933
Total liabilities and net assets	**$ 9,932,345**	$ 9,287,554

See accompanying notes.

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Revenues, Expenses and Changes in Net Assets
(In thousands)

	Year Ended June 30 2011	2010 *(As restated)*
Operating revenues	**$ 4,422,997**	$ 4,171,493
Operating expenses:		
Operations:		
Fuel	**2,291,386**	2,006,931
Purchased power	**660,871**	693,724
Other production	**68,931**	64,948
Transmission and distribution	**179,002**	164,033
Customer accounting and collection	**114,995**	114,686
Administrative and general	**205,586**	210,721
Maintenance	**224,612**	212,993
Depreciation	**350,697**	355,360
Total operating expenses	**4,096,080**	3,823,396
Operating income	**326,917**	348,097
Interest income and other	**4,087**	11,160
Income before interest charges, contribution in lieu of taxes and contributed capital	**331,004**	359,257
Interest charges:		
Interest on bonds	**378,343**	304,614
Interest on notes payable and other long-term debt	**1,882**	34,279
Other interest	**–**	1,907
Amortization of debt discount, issuance costs and refunding loss	**6,497**	14,281
Allowance for funds used during construction	**(16,471)**	(8,428)
Total interest charges, net	**370,251**	346,653
Loss/Income before contribution in lieu of taxes and contributed capital	**(39,247)**	12,604
Contribution in lieu of taxes and other	**(246,758)**	(232,431)
Loss before contributed capital	**(286,005)**	(219,827)
Contributed capital	**13,577**	90,121
Change in net assets	**(272,428)**	(129,706)
Net assets, beginning balance	**102,933**	232,639
Net assets (deficit), ending balance	**$ (169,495)**	$ 102,933

See accompanying notes.

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows
(In thousands)

	Year Ended June 30 2011	2010 *(As restated)*
Cash flows from operating activities		
Cash received from customers	$ **4,203,889**	$ 4,210,885
Cash paid to suppliers and employees	**(3,675,557)**	(3,554,091)
Net cash flows provided by operating activities	**528,332**	656,794
Cash flows from noncapital financing activities		
Proceeds from notes payable	**172,062**	38,364
Principal paid on notes payable	**(36,119)**	(337,985)
Interest paid on notes payable	**(28,286)**	(16,937)
Principal paid on fuel line of credit	**(125,000)**	(275,000)
Proceeds from fuel line of credit	**125,000**	–
Interest paid on fuel line of credit	**(3,100)**	(11,992)
Net cash flows provided by (used in) noncapital financing activities	**104,557**	(603,550)
Cash flows from capital and related financing activities		
Construction expenditures	**(423,872)**	(395,444)
Proceeds received from contributed capital	**6,064**	14,408
Allowance for funds used during construction	**16,471**	8,428
Power revenue bonds:		
Proceeds from issuance of bonds, net of original discount	**361,620**	1,547,073
Principal paid on revenue bonds maturities		(173,062)
Interest paid on revenue bonds	**(209,287)**	(353,501)
Proceeds from issuance of refunding bonds, net of original discount	**222,883**	939,646
Defeased bonds, net of original discount or premium	**(200,173)**	(924,361)
Proceeds from bond anticipation notes	**50,750**	186,610
Payment of bond anticipation notes	**(50,000)**	(747,675)
Interest paid on notes payable	**(201)**	(24,547)
Net cash flows (used in) provided by capital and related financing activities	**(225,745)**	77,575
Cash flows from investing activities		
Purchases of investment securities	**(3,260,411)**	(2,231,395)
Proceeds from sale and maturities of investment securities	**3,042,316**	2,137,457
Interest on investments	**4,860**	11,795
Transfer from general fund to restricted funds	**(15,000)**	(15,000)
Net cash flows used in investing activities	**(228,235)**	(97,143)
Net increase in cash and cash equivalents	**178,909**	33,676
Cash and cash equivalents at beginning of year	**431,644**	397,968
Cash and cash equivalents at end of year	$ **610,553**	$ 431,644

(Continued)

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows
(In thousands)

	Year Ended June 30 2011	2010 *(As restated)*
Cash and cash equivalents		
Unrestricted	**$ 64,856**	$ 81,646
Restricted:		
Cash and cash equivalents held by trustee for payment of principal and interest on bonds	**313,531**	198,693
Cash and cash equivalents within construction and other special funds	**232,166**	151,305
	$ 610,553	$ 431,644

	Year Ended June 30 2011	2010 *(As restated)*
Reconciliation of net operating revenues to net cash provided by operating activities		
Operating income	**$ 326,917**	$ 348,097
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**350,697**	355,360
Provision for uncollectible accounts and other	**30,109**	29,063
Changes in assets and liabilities:		
Receivables	**(313,141)**	(217,776)
Fuel oil	**(42,714)**	36,961
Materials and supplies	**(17,738)**	17,792
Prepayments and other assets	**3,364**	(1,187)
Other deferred debits	**47,522**	(17,494)
Noncurrent liabilities, excluding revenue bonds and notes payable	**37,680**	18,853
Accounts payable and accrued liabilities	**104,642**	82,332
Customer's deposits	**994**	4,793
Total adjustments	**201,415**	308,697
Net cash flows provided by operating activities	**$ 528,332**	$ 656,794

See accompanying notes.

1. Reporting Entity

Puerto Rico Electric Power Authority (the Authority) is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the Commonwealth) created on May 2, 1941, pursuant to Act No. 83, as amended, re-enacted, and supplemented, of the Legislature of Puerto Rico (the Act) for the purpose of conserving, developing and utilizing the water, and power resources of Puerto Rico in order to promote the general welfare of the Commonwealth. Under the entity concept, the Authority is a component unit of the Commonwealth. The Authority produces, transmits, and distributes, substantially, all of the electric power consumed in Puerto Rico.

The Authority has broad powers including, among others, to issue bonds for any of its corporate purposes. The Authority is required, under the terms of a Trust Agreement dated as of January 1, 1974, as amended (the 1974 Agreement), and the Act, to determine and collect reasonable rates for electric service in order to produce revenues sufficient to cover all operating and financial obligations, as defined.

On August 18, 2003, the Commonwealth of Puerto Rico approved Act No. 189, which authorizes the Authority to create, acquire and maintain corporations, partnerships or subsidiary corporations, for profit or non-profit entities.

Basis of Presentation – Blended Component Units

The financial statements of the Authority as of June 30, 2011 and 2010, include the financial position and operations of the Puerto Rico Irrigation Systems (Irrigation Systems) and PREPA Holdings LLC. The Irrigation Systems operate pursuant to the provisions of the Act, and Acts No. 83 and 84, approved on June 20, 1955, regarding the Puerto Rico Irrigation Service, South Coast, and Isabela Irrigation Service, respectively, and the Lajas Valley Public Irrigation Law, approved on June 10, 1953, as amended. PREPA Holdings LLC, a wholly-owned subsidiary of the Authority, was created for the sole purpose of acting as a holding company and has no current operations. PREPA Holdings LLC is the direct parent of the following entities: PREPA Networks, LLC, also known as PREPA.net; PREPA Utilities, LLC; PREPA Oil & Gas, LLC; and InterAmerican Energy Sources, LLC.

The financial statements of the Authority as of June 30, 2011 and 2010, include the financial position and operations of the Irrigation System and PREPA Holdings LLC.

1. Reporting Entity (continued)

Basis of Presentation – Blended Component Units (continued)

The Irrigations Systems and PREPA Holdings LLC conform to the requirements of Governmental Accounting Standards Board (GASB) No. 39, *Determining Whether Certain Organizations are Component Units,* on its stand-alone financial statements. GASB No. 39 establishes standards for defining and reporting on the financial reporting entity. It also establishes standards for reporting participation in joint ventures. It applies to financial reporting by primary governments, and other stand-alone governments; and it applies to the separately issued financial statements of governmental component units. In addition, this Statement should be applied to governmental and non-governmental component units when they are included in a governmental financial reporting entity.

Condensed financial information as of June 30, 2011 and 2010 and for the years then ended for the Irrigation Systems is as follows:

	2011	2010
	(In thousands)	
Balance sheets:		
Assets:		
Receivables, net	**$ 16,555**	$ 14,829
Prepayments and other assets	**240**	240
Utility Plant, net of depreciation	**20,254**	20,081
Total assets	**$ 37,049**	$ 35,150
Liabilities:		
Accounts payable, net	**$ 1,066**	$ 1,043
Statements of revenues, expenditures and changes in net assets:		
Operating revenues	**$ 6,002**	$ 7,370
Operating expenses	**(4,126)**	(13,436)
	1,876	(6,066)
Net assets, beginning balance	**34,107**	40,173
Net assets, ending balance	**$ 35,983**	$ 34,107

1. Reporting Entity (continued)

Basis of Presentation – Blended Component Units (continued)

Pursuant to the Act, the Authority is authorized to create subsidiaries in order to, among other things, delegate or transfer any of its rights, powers, functions or duties. The Authority currently has four principal subsidiaries organized in a holding company structure. Currently, only PREPA.Net has significant operations.

PREPA.Net was created to develop strategies for commercializing the surplus capacity of the installed Optical Fiber Network (OFN), adding flexibility and diversification to its operations. PREPA.Net was created on April, 2004 and started commercial operations during fiscal year 2005-2006.

PREPA.Net provides Optical Infrastructure to carriers, ISPs and enhanced services providers – with a highly reliable island wide fiber optic network.

PREPA.Net entered into a long-term lease with PREPA for the Indefeasible Right of Use (IRU) of all PREPA's Optical Infrastructure. PREPA.Net's network features state of the art optical technology that is being used by service providers to reach underseas cable landing stations, wireless network towers, and island wide locations.

In February 2008, PREPA.Net acquired Telecomunicaciones Ultramarinas de Puerto Rico (Ultracom). Ultracom is one of the three submarine cable station administrators in Puerto Rico. This acquisition provides PREPA.Net with International fiber optic capacity and satellite teleport facilities.

PREPA Utilities, LLC, was created for the purpose of investing, financing, constructing and operating industrial projects and other infrastructure relating to the optimization of the Authority's electric infrastructure.

PREPA Oil & Gas, LLC, was created for the purpose of buying, selling, exchanging and otherwise trading or dealing with the export, import, manufacture, production, preparation, handling, storage, and distribution of oil and gas and any other fuels required to satisfy the Authority's power generation needs.

1. Reporting Entity (continued)

Basis of Presentation – Blended Component Units (continued)

InterAmerican Energy Sources was created for the purpose of investing, developing, financing, constructing and operating renewable energy projects and other infrastructure related to the optimization of the Authority's electric infrastructure. PREPA Utilities, LLC, PREPA Oil & Gas, LLC, and InterAmerican Energy Sources, LLC are currently not operating.

Condensed financial information for PREPA Holdings LLC as of June 30, 2011 and 2010 and for the year then ended is as follows:

	2011	2010
	(In thousands)	
Balance sheets:		
Assets:		
Cash and cash equivalents	**$15,012**	$13,062
Receivables, net	**1,943**	2,324
Prepayments and other assets	**77**	17
Utility plant, net of depreciation	**9,769**	7,903
Other receivables	**–**	155
Total assets	**$26,801**	$23,461
Liabilities:		
Accounts payable, net	**$ 8,322**	$ 7,385
Notes payable	**9,819**	10,100
Total liabilities	**$18,141**	$17,485
Statements of revenues, expenditures and changes in net assets:		
Operating revenues	**$10,945**	$ 9,781
Operating expenses	**(8,261)**	(7,065)
	2,684	2,716
Net assets, beginning balance	**5,976**	3,260
Net assets, ending balance	**$ 8,660**	$ 5,976

2. Summary of Significant Accounting Policies

The following is a summary of the most significant accounting policies followed by the Authority in preparing its financial statements:

Basis of Accounting

The accounting and reporting policies of the Authority conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). As such, it functions as an enterprise fund. The Authority maintains its accounting records on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Although the Authority is not subject to all Federal Energy Regulatory Commission (FERC) regulations, the Authority has adopted the uniform system of accounts prescribed by FERC.

The Authority follows the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, as amended by GASB Statement No. 34, which requires proprietary activities to apply all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, and Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless the pronouncements conflict or contradict GASB pronouncements.

This pronouncement permits the adoption of all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict or contradict GASB pronouncements. The Authority, as allowed by GASB, decided not to implement any FASB Statement or Interpretation issued after November 30, 1989.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents included in the restricted funds are considered cash equivalents for purposes of the statements of cash flows.

2. Summary of Significant Accounting Policies (continued)

Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions.

Materials, Supplies and Fuel Oil

Materials, supplies and fuel oil inventories are carried at average cost and are stated at the lower of cost or market.

Investments

The Authority follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which require the reporting of investments at fair value in the balance sheet and the recording of changes in fair value in the statement of revenues, expenses and changes in net assets. The fair value is based on quoted market prices.

The funds under the 1974 Agreement may be invested in:

- Government obligations, which are direct obligations of, or obligations whose principal and interest is guaranteed by the U.S. Government, or obligations of certain of its agencies or instrumentalities.

- Investment obligations of any of the states or territories of the United States or political subdivisions thereof (other than obligations rated lower than the three highest grades by a nationally recognized rating agency) and repurchase agreements with commercial banks fully secured by U.S. Government obligations.

- Time deposits with Government Development Bank for Puerto Rico (GDB) or the Authority's Trustee under the 1974 Agreement or any bank or trust company member of the Federal Deposit Insurance Corporation having a combined capital and surplus of not less than $100 million.

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

Effective April 1999, the 1974 Agreement was amended to provide that permitted investments of moneys to the credit of the Self-insurance Fund be expanded (subject to the Authority's adoption of an investment policy with the consent of GDB) to coincide with the investments permitted for the pension fund for employees of the Commonwealth of Puerto Rico and its instrumentalities.

Such investments include various debt instruments, such as mortgage loans and leases, common and preferred stock, real property and various other financial instruments.

Utility Plant

Utility plant is carried at cost, which includes labor, materials, overhead, and an allowance for the cost of funds used during construction (AFUDC). AFUDC represents the cost of borrowed funds used to finance construction work in progress. AFUDC is capitalized as an additional cost of property and as a reduction of interest expense. Capitalized interest expense is reduced by interest income earned on related investments acquired with proceeds of tax-exempt borrowings. Such costs are recovered from customers as a cost of service through depreciation charges in future periods. Capitalized interest during the years ended June 30, 2011 and 2010 amounted to $16.5 million and $8.4 million, respectively. These amounts are net of interest income earned on investments amounting to $.8 million and $.7 million, respectively.

Capital expenditures of $1,200 or more are capitalized at cost at the date of acquisition. Maintenance, repairs, and the cost of renewals of minor items of property units are charged to operating expenses. Replacements of major items of property are charged to the plant accounts. The cost of retired property, together with removal cost less salvage, is charged to accumulated depreciation with no gain or loss recognized.

The Authority follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

2. Summary of Significant Accounting Policies (continued)

Depreciation

Depreciation is computed on the straight-line method at rates considered adequate to allocate the cost of the various classes of property over their estimated service lives. The annual composite rate of depreciation, determined by the Authority's consulting engineers, was approximately 4.25% for 2011 and 2010.

Unamortized Debt Issuance Expense

Debt issuance expenses and discounts incurred in the issuance of bonds are deferred and amortized using the straight-line method, which approximates the interest method, over the term of the related debt.

For debt refunding debt, the excess of reacquisition cost over the carrying value of long-term debt is deferred and amortized to operating expenses using the straight-line method over the remaining life of the original debt or the life of the new debt, whichever is shorter.

Pension Plan

Pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between annual required contributions and actual contributions.

Other Postemployment Benefits

Other Postemployment Benefits (OPEB) cost of healthcare provided to employees is measured and disclosed using the accrual basis of accounting (see Note 12).

Accounting for Compensated Absences

Accumulated unpaid vacation and sick leave pay are accrued when earned and an additional amount is accrued as a liability for the employer salary-related benefits associated with compensated absences using salary rates in effect at the balance sheets date.

2. Summary of Significant Accounting Policies (continued)

Accounting for Compensated Absences (continued)

The cost of compensated absences expected to be paid in the next twelve months is classified as current accounts payable and accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

Revenue Recognition, Fuel Costs and Purchase Power

Clients are billed monthly, except for rural clients who are billed bi-monthly. Revenues are recorded based on services rendered during each accounting period, including an estimate for unbilled services. Revenues include amounts resulting from a fuel and purchased power cost recovery clause (Fuel Adjustment Clause), which is designed to permit full recovery through customer billings of fuel costs and purchased power. Fuel costs and purchased power are reflected in operating expenses as the fuel and purchased power are consumed.

Contributions in Lieu of Taxes and Governmental Subsidies

The Act exempts the Authority from all taxes that otherwise would be levied on its properties and revenues by the Commonwealth and its Municipalities, except as follows:

Municipalities

To the extent net revenues, as defined, are available, the Authority is required under the Act to make a contribution in lieu of taxes of 11% to the Commonwealth and the Municipalities of gross electric sales as follows:

The Authority is required under the Act to make a contribution in lieu of taxes to municipalities of the greater of:

- **a)** Twenty percent of the Authority's Adjusted Net Revenues (Net Revenues, as defined in the 1974 Agreement, less the cost of the Commonwealth rate subsidies);
- **b)** The cost collectively of the actual electric power consumption of the municipalities; or
- **c)** The prior five-year moving average of the contributions in lieu of taxes paid to the municipalities collectively.

2. Summary of Significant Accounting Policies (continued)

Contributions in Lieu of Taxes and Governmental Subsidies (continued)

Municipalities (continued)

If the Authority does not have sufficient funds available in any year to pay the contribution in lieu of taxes, the difference is accrued and carried forward for a maximum of three years. The contribution in lieu of taxes to Municipalities can be used to offset accounts receivable balance owed by the Municipalities to the Authority as permitted by law.

Commonwealth of Puerto Rico

To the extent net revenues are available, the Authority is also required under the Act to set aside the remainder of contribution in lieu of taxes of gross electric sales for the purpose of (i) financing capital improvements, (ii) offsetting other subsidies (other than cost of fuel adjustments to certain residential clients) of the Commonwealth, and (iii) any other lawful corporate purpose. Amounts assigned to (ii) above, are classified as a contribution in lieu of taxes in the accompanying statements of revenues, expenses and changes in net assets and reduce the related accounts receivable in the balance sheets.

Contributed Capital

The Authority records contributed capital as income in the year earned. The Authority receives contributed capital in the form of cash and property from residential projects developed by third parties during recent years and local and federal agencies.

Risk Management

The Authority purchases commercial insurance covering casualty, theft, tort claims, natural disaster and other claims covering all risk property (excluding transmission and distribution lines), boiler and machinery, boiler, machinery and public liability. In addition the Authority has a self insured fund to pay cost of repairing, replacing or reconstructing any property damaged or destroy from, or extraordinary expenses incurred as a result of a cause, which is not covered by insurance required under 1974 agreement.

2. Summary of Significant Accounting Policies (continued)

Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications were made to 2010 figures to conform with 2011 presentation.

Interest-Rate Swap Agreements

The Authority follows the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement establishes guidance for the recognition, measurement, and disclosure of information regarding derivative instruments.

The interest-rate swaps are used in the area of debt management to take advantage of favorable market interest rates and to limit interest rate risk associated with variable rate debt exposure.

Under the interest-rate swap programs, the Authority pays fixed and variable rate of interest based on various indices for the term of the variable interest rate Power Revenue Bonds and receives a variable rate of interest, which is also based on various indices. These indices are affected by changes in the market. The net amount received or paid under the swap agreements is recorded as an adjustment to interest expense on the statements of income.

3. Cash and Cash Equivalents

The 1974 Agreement established the General Fund, the Revenue Fund, and certain other funds (see Note 5). All revenues (other than income from investments and construction funds obtained from financing) are deposited in these funds. The moneys held in these funds are presented as unrestricted cash and cash equivalents in the balance sheets.

3. Cash and Cash Equivalents (continued)

At June 30, 2011 and 2010, the carrying amount and bank balance of cash deposits held by the Authority and restricted cash deposits held by the Trustee under the 1974 Agreement are as follows (in thousands):

	2011		2010	
	Carrying Amount	**Bank Balance**	**Carrying Amount**	**Bank Balance**
Unrestricted	**$ 64,856**	**$ 43,915**	$ 81,646	$ 57,326
Restricted:				
Held by the Trustee	**313,531**	**313,531**	198,693	198,693
Held by the Authority	**232,166**	**232,166**	151,305	151,305
	$ 610,553	**$ 589,612**	$ 431,644	$ 407,324

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Bank's deposits may not be returned. The Commonwealth of Puerto Rico (the Commonwealth) requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. Deposits maintained in GDB or Economic Development Bank (EDB) are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of GDB's or EDB's failure the Authority may not be able to recover the deposits. The Authority's policy is to deposit funds with either institution which provides insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.

All moneys deposited with the Trustee or any other Depositary hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities.

4. Accounts Receivable

At June 30, receivables consist of (in thousands):

	2011	2010
Electric and related services:		
Government agencies and municipalities	**$ 464,103**	$ 345,535
Residential, industrial, and commercial	**720,133**	657,426
Recoveries under fuel adjustment clause under billed	**28,329**	14,412
Unbilled services	**203,499**	179,583
Commonwealth subsidy (fuel adjustment clause) for certain residential clients	**12,653**	18,980
Miscellaneous accounts and others	**24,257**	23,946
	1,452,974	1,239,882
Allowance for uncollectible accounts	**(214,125)**	(194,852)
	1,238,849	1,045,030
Receivable from insurance companies and other	**37,649**	37,954
Accrued interest on investments	**1,377**	2,128
Less other non-current receivables, mostly related to the Commonwealth	**(95,407)**	(108,216)
	$1,182,468	$ 976,896

On October 29, 1991, the Authority entered into an agreement with the Commonwealth for the payment of the outstanding fuel adjustment subsidy receivable amounting to approximately $94 million. Under this agreement, the Commonwealth was paying that amount over a fifteen-year period in installments of approximately $6.3 million per year, without interest. As of June 30, 2004, the outstanding fuel adjustment subsidy receivable amounted to approximately $31.6 million. In June 2004, the Legislature of the Commonwealth of Puerto Rico superseded the 1991 agreement with a revised agreement containing an eight-year payment schedule that totals $55.7 million. The amount owed to the Authority under the 2004 agreement includes an allocation for past due government account receivables in addition to the unpaid balance of the fuel adjustment subsidy. As of June 30, 2011 and 2010, the outstanding receivable amounted to approximately $6.3 million. This amount is included in other non-current receivables in the accompanying balance sheet.

4. Accounts Receivable (continued)

In addition, the Authority has other subsidies and reimbursable costs receivable from the Commonwealth, which are reduced by means of charges (accounted for as a contribution in lieu of taxes and to the extent net revenues, as defined, are available) against a portion of the 11% of gross electric sales, after the contribution in lieu of taxes to municipalities, it is required to set aside under the Act. The portion of such receivables and other governmental receivables not expected to be collected during the next fiscal year are reflected in the accompanying balance sheets as other noncurrent receivables.

5. Restricted Assets

At June 30, 2011 and 2010, certain investments and cash deposits of the Authority were restricted to comply with long-term principal and interest debt service requirements (sinking funds) as well as for self-insurance. These restricted assets are held by the Trustee under the 1974 Agreement (see Note 3) in the following funds:

1974 Reserve Account – Reserve for payment of principal of and interest on Power Revenue Bonds in the event moneys in Bond Service Account or Redemption Account are insufficient for such purpose.

1974 Self-Insurance Fund – Fund to pay the cost of repairing, replacing or reconstructing any property damaged or destroyed from, or extraordinary expenses incurred as a result of a cause, which is not covered by insurance required under the 1974 Agreement. The 1974 Self-Insurance Fund also serves as an additional reserve for the payment of the principal of and interest on the Power Revenue Bonds, and meeting the amortization requirements to the extent that moneys in the Bond Service Account, the Redemption Account and the 1974 Reserve Account are insufficient for such purpose. During fiscal years 2010-2011 and 2009-2010, the Authority deposited $10 million each to the 1974 Self-Insurance Fund.

Bond Service Account and Redemption Account (1974 Sinking Fund) – Current year requirements for principal of and interest on Power Revenue Bonds. As of June 30, 2011 and 2010, cash and cash equivalents in this account amounted to $313.5 million and $198.7 million, respectively.

5. Restricted Assets (continued)

At June 30, investments held by the Trustee consist of (in thousands):

	2011	**2010**
1974 Reserve Account	**$ 377,903**	$ 359,714
1974 Self-Insurance Fund	**84,645**	73,782
Sinking Fund – Capitalized Interest	**153,958**	–
	$ 616,506	$ 433,496

Investments held by Trustee under the 1974 Agreement are invested exclusively in securities of the U.S. Government and its agencies.

The Authority also has cash and investment securities held by the trust department of a commercial bank restricted for the following purposes:

1974 Construction Fund – Special fund created by the 1974 Agreement. The proceeds of any Power Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing improvements, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1974 Reserve Account, (iii) deposited in the Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1974 Construction Fund and held by the Authority in trust.

Reserve Maintenance Fund – Fund to pay the cost of unusual or extraordinary maintenance or repairs, not recurring annually, and renewals and replacements, including major items of equipment. The Reserve Maintenance Fund also serves as an additional reserve for the payment of principal of and interest on the Power Revenue Bonds and meeting the amortization requirements to the extent that moneys in the 1974 Sinking Fund, including money in the 1974 Reserve Account, are insufficient for such purpose. During fiscal years 2010-2011 and 2009-2010 the Authority deposited $5 million in each fiscal year to the 1974 Reserve Maintenance Fund.

5. Restricted Assets (continued)

At June 30, 2011 and 2010, the 1974 Construction Fund and Reserve Maintenance Fund consist of (in thousands):

	2011		2010	
	Cash and Cash Equivalents	**Investments**	**Cash and Cash Equivalents**	**Investments**
1974 Construction Fund	**$225,254**	**$1,099**	$ 149,405	$ 921
Reserve Maintenance Fund	**5,012**	**10,679**	–	10,640
Other Restricted Funds	**1,900**	**–**	1,900	–
PREPA Client Fund	**–**	**500**	–	–
	$232,166	**$12,278**	$ 151,305	$ 11,561

Following is the composition of the investments in the 1974 Construction Fund and other special funds (in thousands):

	2011	**2010**
U.S. Government obligations	**$ 1,099**	$ 921
Certificate of deposit	**11,179**	10,640
	$ 12,278	$ 11,561

5. Restricted Assets (continued)

Investments

The following table provides a summary of the Authority's investments by type at June 30, 2011 (in thousands):

June 30, 2011	Coupon Rate	Maturity Dates	Face Value	Fair Value	% of Total Portfolio
1974 Reserve Maintenance Fund					
Federal National Mortgage Association					
Federal Farm Credit Bank	0.16%	Jun-14	5,000	$ 4,979	46.6%
Certificate of Deposits	.14 to 1.05%	7/2011 to 8/2011	5,700	5,700	53.4%
			Total Portfolio	10,679	
1974 Self Insurance Reserve Fund					
Federal Home Loan Mortgage Corp.	.825 to 1.05%	10/2013 to 6/2014	26,700	26,682	31.5%
Certificate of Deposit	.15 to .17%	Jul-11	57,963	57,963	68.5%
			Total Portfolio	84,645	
1974 Reserve Account					
Federal Home Loan Mortgage Corporation	1.93 to 2.00%	8/2014 to 8/2015	31,300	31,354	8.3%
Federal Home Loan Bank	.625 to 2.00%	9/2015 to 12/2015	78,285	77,793	20.6%
Federal National Mortgage Association	1.63 to 2.08%	10/2015 to 6/2016	79,800	78,769	20.8%
Federal Farm Credit Bank	1.85 to 2.25%	8/2015 to 5/2016	76,560	76,576	20.3%
Certificates of Deposits	.12 to .20%	Jul-11	113,411	113,411	30.0%
			Total Portfolio	377,903	
Sinking Fund - Capitalized Interest					
US Treasury Note	.625 to 4.625%	7/2011 to 8/2011	37,579	38,260	24.9%
Federal Home Loan Mortgage Corporation	0.63%	Dec-12	14,060	14,107	9.2%
Federal Home Loan Bank	.20 to 2.00%	9/2011 to 11/2012	31,220	31,466	20.4%
Federal National Mortgage Association	.17 to 1.25%	7/2011 to 12/2012	21,839	21,913	14.2%
US Bank Money Market	0.10%		37,400	37,387	24.3%
Certificates of Deposits	0.14%	Jul-11	10,825	10,825	7.0%
			Total Portfolio	153,958	
1974 Construction Fund					
Other - Rural Electrication Administration (REA)			1,099	1,099	0.5%
			Total Portfolio	1,099	
1974 PREPA Client					
Certificates of Deposits			500	500	100.0%
			Total Portfolio	500	
				$ 628,784	

5. Restricted Assets (continued)

Investments (continued)

The following table provides a summary of the Authority's investments by type at June 30, 2010 (in thousands):

June 30, 2010	Coupon Rate	Maturity Dates	Face Value	Fair Value	% of Total Portfolio
1974 Reserve Maintenance Fund					
Federal National Mortgage Association	1.00%	Jun-13	5,602	$ 5,635	53%
Certificate of Deposits	0.24%	Jul-10	5,004	5,004	47%
			Total Portfolio	10,639	
1974 Self Insurance Reserve Fund					
Federal Home Loan Mortgage Corp.	2.35%	Mar-12	11,500	11,532	16%
Federal National Mortgage Association	2.00%	Feb-13	10,100	10,116	14%
Federal Home Loan Bank	1.69 to 2.00%	4/2013 to 6/2013	20,611	20,644	28%
Certificates of Deposit	.24 to .37%	Jul-10	31,490	31,490	43%
			Total Portfolio	73,782	
1974 Reserve Account					
Federal Home Loan Mortgage Corporation	3.00 to 3.05%	1/2015 to 5/2015	66,389	66,846	19%
Federal Home Loan Bank	2.09 to 3.00%	9/2013 to 6/2015	85,850	86,249	24%
Federal National Mortgage Association	2.00 to 3.05%	6/2013 to 2/2015	51,640	51,817	14%
Federal Farm Credit Bank	2.35 to 2.80%	9/2014 to 5/2015	25,323	25,419	7%
Certificates of Deposit	.18 to .50%	Jul-10	129,384	129,384	36%
			Total Portfolio	359,715	
1974 Construction Fund					
Other – Rural Electrification Administration (REA) Investment			921	921	100%
			Total Portfolio	921	
				$ 445,057	

5. Restricted Assets (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The 1974 Trust Agreement limits investments in:

- Government obligations, which are direct obligations of, or obligations whose principal and interest is guaranteed by the U.S. Government, or obligation of certain of its agencies or instrumentalities.

- Investment obligation of any of the states or territories of the United States or political subdivisions therefore (other than obligations rated lower than the three highest grades by a nationally recognized rating agency) and repurchase agreements with commercial banks fully secured by U.S. Government Obligations.

- Time deposits with GDB or the Authority's Trustee under the 1974 Agreement or any bank or trust company member of the Federal Deposit Insurance Corporation having a combined capital and surplus of not less than $100 million.

As of June 30, 2011, the Authority's investments in Federal Home Loan Mortgage, Federal Home Loan Bank, Federal National Mortgage Association and Federal Farm Credit Bank and Freddie Mac were rated AAA by Standard & Poor's (S&P) and Aaa by Moody's Investors Service. In August 2011, S&P downgraded the United States Government debt's credit rating from AAA to AA+.

Concentration Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer by five percent or more of total investment. The Authority's investment policy does not contain a limitation to invest in the securities of single issuer. As June 30, 2011, more than 5% of the Authority's total investments are in Federal Home Loan Mortgage, Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank, and Certificate of Deposits.

5. Restricted Assets (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the 1974 Trust Agreement, the Authority manages its exposure to declines in fair values by limiting the maturity of its investment portfolio up to 5 years. Information about the sensitivity of the fair values of the Authority's investment to market interest fluctuations is provided by the following tables that show the distribution of the investments by maturity as of June 30, 2011 and 2010 (in thousands):

June 30, 2011

Investment Type	Fair Value	Investment Maturities: Less than 1 year	Investment Maturities: 1-5 years	Total
Federal Home Loan Mortgage	$ 45,461	$ –	$ 45,461	$ 45,461
Federal Home Loan Bank	135,941	–	135,941	135,941
Federal National Mortgage	100,682	–	100,682	100,682
Federal Farm Credit Bank	81,553	–	81,553	81,553
Certificate of Deposits	188,401	188,401	–	188,401
US Treasury Note	38,260	38,260	–	38,260
US Bank Money Market	37,387	37,387	–	37,387
Other – REA Investment	1,099	–	1,099	1,099
Total Investments				$ 628,784

June 30, 2010

Investment Type	Fair Value	Investment Maturities: Less than 1 year	Investment Maturities: 1-5 years	Total
Federal Home Loan Mortgage	$ 78,378	$ –	$ 78,378	$ 78,378
Federal Home Loan Bank	106,893	–	106,893	106,893
Federal National Mortgage	67,568	–	67,568	67,568
Federal Farm Credit Bank	25,419	–	25,419	25,419
Certificate of Deposits	165,878	165,878	–	165,878
Other – REA Investment	921	–	921	921
Total Investments				$ 445,057

6. Utility Plant

As of June 30, utility plant consists of:

	2011	As restated 2010
	(In thousands)	
Distribution	**$ 3,331,748**	$ 2,937,624
Transmission	**2,042,152**	1,906,720
Production	**2,615,803**	2,389,143
Other production	**1,460,560**	1,409,138
Hydroelectric	**130,846**	128,702
General	**1,523,043**	1,751,793
Irrigation systems	**33,597**	33,307
Fiber Network	**18,862**	16,701
	11,156,611	10,573,128
Less accumulated depreciation	**(5,364,446)**	(5,022,563)
	5,792,165	5,550,565
Construction in progress	**1,020,437**	1,182,225
	$ 6,812,602	$ 6,732,790

Utility plant activity for the years ended June 30, 2011 and 2010 was as follows (in thousands):

	2010 Beginning Balance	Increases	Decreases	Transfers	2011 Ending Balance
Utility plant, as restated	$10,573,128	$ –	$(8,814)	$ 592,297	**$ 11,156,611**
Construction work in progress	1,182,225	430,509	–	(592,297)	**1,020,437**
Total utility plant, as restated	11,755,353	430,509	(8,814)	–	**12,177,048**
Less:					
Accumulated depreciation	(5,022,563)	(350,697)	8,814	–	**(5,364,446)**
Total utility plant, net as restated	$ 6,732,790	$ 79,812	$ –	$ –	**$ 6,812,602**

6. Utility Plant (continued)

	2009 Beginning Balance	Increases	Decreases	Transfers	2010 Ending Balance
Utility plant, as restated	$ 9,573,646	$ –	$ (22,976)	$ 1,022,458	$ 10,573,128
Construction work in progress	1,697,250	507,433	–	(1,022,458)	1,182,225
Total utility plant	11,270,896	507,433	(22,976)	–	11,755,353
Less:					
Accumulated depreciation	(4,667,203)	(378,336)	22,976	–	(5,022,563)
Total utility plant, net as restated	$ 6,603,593	$ 129,097	$ –	$ –	$ 6,732,790

Construction work in progress at June 30, 2011 and 2010 consists principally of expansions and upgrades to the electric generation, distribution and transmission systems.

7. Defeasance of Debt

In prior years, the Authority has refunded in advance certain Power Revenue Bonds and other obligations by placing the proceeds of new debt in an irrevocable trust to provide for future debt service payments on such bonds. Accordingly, the trust accounts, assets, and liabilities for the defeased bonds are not included in the Authority's financial statements. At June 30, 2011, $4.1 million of Power Revenue Bonds which remain outstanding are considered defeased.

8. Notes Payable

The following is a summary of notes payable as of June 30, 2011 (in thousands):

	June 30, 2011				
	Maturity Date	**Effective Interest Rate**	**Current Liabilities**	**Long-Term Debt**	**Total**
Notes payable, unrestricted:					
Line of credit of $64.2 million to fund payments required under a settlement agreement with municipalities	**June, 2014**	**.70%+LIBOR(v)**	**$ 9,700**	**$ 20,158**	**$ 29,858**
Loan of $41.5 to sale at discount the funds assigned by the Legislature of Puerto Rico through Joint Resolution 1290 of August 24, 2004, to pay the amount owed by the Commonwealth regarding the fuel subsidy	**Nov- 2013**	**4.375%(v)**	**5,853**	**4,901**	**10,754**
Revolving line of credit of $150 million to Working capital	**June-2012**	**1.75%+LIBOR(v)**	**150,000**	**–**	**150,000**
Line of credit of $35.0 million for the construction of Gasoducto del Sur	**Aug - 2011**	**6.00%(f)**	**26,485**	**–**	**26,485**
Line of credit of $25 million to finance improvements to Isabela Irrigation System	**June-2018**	**7.00%(v)**	**750**	**–**	**750**
PREPA.Net - Loan used in the acquisition of subsidiary, Ultramarinas de P.R. (ULTRACOM)	**Feb-2023**	**3.25%(v)**	**912**	**8,978**	**9,890**
Total notes payable			**$ 193,700**	**$ 34,037**	**$227,737**

(V) – *variable interest rate*
(F) – *fixed interest rate*

8. Notes Payable (continued)

The following is a summary of notes payable as of June 30, 2010 (in thousands):

June 30, 2010	Maturity Date	Effective Interest Rate	Current Liabilities	Long-Term Debt	Total
Notes payable, unrestricted:					
Line of credit of $64.2 million to fund payments required under a settlement agreement with municipalities	Jun-2014	3.40%$^{(V)}$	$ 9,200	$ 29,858	$ 39,058
Loan of $41.5 to sale at discount the funds assigned by the Legislature of Puerto Rico through Joint Resolution 1290 of August 24, 2004, to pay the amount owed by the Commonwealth regarding the fuel subsidy	Nov-2013	4.30%$^{(V)}$	5,609	10,754	16,363
Line of credit of $35.0 million for the construction of Gasoducto del Sur	Aug-2011	6.00%$^{(F)}$	–	26,271	26,271
PREPA.Net - Loan used in the acquisition of subsidiary, Ultramarinas de P.R. (ULTRACOM)	Feb-2023	3.36%$^{(V)}$	281	9,819	10,100
Total notes payable			$ 15,090	$ 76,702	$ 91,792

(V) – *variable interest rate*
(F) – *fixed interest rate*

Short-term debt activity for the years ended June 30, 2011 and 2010 was as follows:

	2011	2010
	(In thousands)	
Balance at beginning of year	**$ 15,090**	$ 1,113,957
Proceeds and transfers from long-tem debt	**339,800**	177,183
Payment of short-term debt	**(161,190)**	(1,276,050)
Balance at end of year	**$ 193,700**	$ 15,090
Notes payable – short-term:		
Unrestricted	**$ 193,700**	$ 15,090
Total of notes payable	**$ 193,700**	$ 15,090

9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2011 and 2010 were as follows:

	2011	2010
	(In thousands)	
Accounts payable, accruals, and withholdings in process of payment	**$ 898,910**	$ 705,215
Additional accruals and withholdings:		
Injuries and damages and other	**23,911**	23,911
Accrued vacation and payroll benefits	**60,609**	59,833
Accrued sick leave and payroll benefits - exclusive of benefits to be liquidated after one year of approximately $139.9 million in 2011 and $128.9 million in 2010	**26,665**	34,139
Accrued compensation	**22,647**	34,770
Accrued pension plan contribution and withholding from employees:		
Employees' Retirement System	**16,588**	15,800
Employees health plan	**13,187**	14,607
Contribution in lieu of taxes	**176,514**	70,813
Other accrued liabilities	**12,659**	10,145
	$ 1,251,690	$ 969,233

10. Other Current Liabilities Payable from Restricted Assets

	2011	2010
	(In thousands)	
Contract retainage	**$ 10,209**	$ 12,733
Other liabilities	**59,199**	59,699
	$ 69,408	$ 72,432

11. Long-Term Debt

At June 30, long-term debt consists of:

	2011	2010
	(In thousands)	
Power Revenue Bonds payable:		
Publicly offered at various dates from 1997 to 2010, interest rates ranging from 2% to 6.125%, maturing to 2040	**$ 7,780,890**	$ 7,422,875
	7,780,890	7,422,875
Plus unamortized premium and debt reacquisition costs	**80,362**	72,447
Revenue bonds payable, net	**7,861,252**	7,495,322
Notes payable and bond anticipation notes	**227,736**	91,792
	8,088,988	7,587,114
Less current portion of long-term debt:		
Notes payable from unrestricted assets	**193,700**	15,090
Power revenue bonds	**358,552**	172,278
Current portion of long-term debt from restricted assets	**358,552**	172,278
Total current portion of long-term debt	**552,252**	187,368
	$ 7,536,736	$ 7,399,746

11. Long-Term Debt (continued)

Long-term debt activity for the years ended June 30, 2011 and 2010 was as follows:

	2011	2010
	(In thousands)	
Long-term debt excluding current portion	**$ 7,587,114**	$ 6,843,137
New issues:		
Power revenue bonds	**355,730**	1,536,105
Power revenue refunding bonds	**218,225**	994,235
Debt discount and excess reacquisition costs on new bond issues, – net	**(10,548)**	43,621
Defeaseance of bonds	**(215,940)**	(965,094)
Debt discount and excess reacquisition costs on cancelled bonds, – net	**15,767**	40,734
Notes payable	**172,062**	212,881
	8,122,410	8,705,619
Payments:		
Power revenue bond – July 1	**–**	(172,640)
Power revenue bond – January 1	**–**	(422)
Notes payable	**(36,119)**	(955,841)
Total payments	**(36,119)**	(1,128,903)
Amortization of debt discount and excess reacquisition costs	**2,697**	10,398
Balance at end of year	**$ 8,088,988**	$ 7,587,114
Current portion of notes payable	**$ 193,700**	$ 15,090
Current portion of power revenue bonds	**358,552**	172,278
Total current portion of long-term debt	**$ 552,252**	$ 187,368

11. Long-Term Debt (continued)

Power Revenue Bonds Payable

During fiscal year 2011, the Authority issued its Power Revenue Bonds, Series DDD and EEE. In addition, Series EEE was issued under the Build America Bonds (BAB's) federal program, for the purpose of financing the cost of its Capital Improvements Program (CIP). Under this program the Authority will receive a credit from the United States Treasury equal to 35% of the stated interest paid on such bonds.

A summary of the net proceeds of the Power Revenue Bonds, Series DDD and EEE and the application of the proceeds follows (in thousands):

Principal amount of the bonds	$ 573,955
Net original issue premium	14,310
Deposits in bond service accounts	2,552
Authority Contribution	150
Total sources	$ 590,967
Application of net proceeds:	
Deposit to 1974 construction fund	$ 284,466
Deposit to reserve account	14,050
Deposit to escrow fund for the refunded bonds	219,929
Capitalized interest on bonds through July 1, 2012	12,377
Payment of accrued interest on bond anticipation notes	150
Underwriting discount and estimated legal, printing and other financing expenses	9,995
Repayment of bond anticipation notes	50,000
Total application of proceeds	$ 590,967

11. Long-Term Debt (continued)

Power Revenue Bonds Payable (continued)

During fiscal year 2010, the Authority issued its Power Revenue Bonds, Series XX, ZZ, AAA, BBB and CCC. In addition, Series YY was issued under the Build America Bonds (BAB's) federal program, for the purpose of financing the cost of its Capital Improvements Program (CIP). Under this program the Authority will receive a credit from the United States Treasury equal to 35% of the stated interest paid on such bonds.

A summary of the net proceeds of the Power Revenue Bonds, Series XX, YY, ZZ, AAA, BBB and CCC and the application of the proceeds follows (in thousands):

Principal amount of the bonds	$ 2,530,340
Net original issue discount	(6,991)
Net original issue premium	58,914
Deposits in bond service accounts	235,931
Total sources	$ 2,818,194
Application of net proceeds:	
Deposit to 1974 construction fund	$ 163,527
Deposit to reserve account	80,502
Deposit to the debt service reserve fund	2,637
Deposit to escrow fund for the refunded bonds	662,847
Capitalized interest on bonds through July 1, 2010	188,825
Payment of accrued interest on lines of credit	325
Underwriting discount and estimated legal, printing and other financing expenses	27,774
Swap termination payment	44,500
Repurchase of the purchased bonds	329,306
Repayment of bond anticipation notes	100,473
Repayment of lines of credit	1,108,177
Repayment of Government Development Bank line of credit	109,300
Total application of proceeds	$ 2,818,194

11. Long-Term Debt (continued)

Power Revenue Bonds Payable (continued)

Maturities of the Power Revenue Bonds Series DDD issued during fiscal year 2011 range from July 1, 2020 to July 1, 2024. The Series DDD Bonds bear fixed interest rates ranging from 3.625% to 3.875%. Interest on the Series DDD Bonds is payable on each July 1 and January 1.

Maturities of the Power Revenue Refunding Bonds Series EEE issued during fiscal year 2011 range from July 1, 2020 to July 1, 2040. The Series EEE Bonds bear a coupon rate of 6.1%. Interest on the Series EEE Bonds is payable quarterly on each July 1, October 1, January 1 and April 1.

Maturities of the Power Revenue Bonds Series XX issued during fiscal year 2010 range from July 1, 2025 to July 1, 2040. The Series XX Bonds bear fixed interest rates ranging from 4.6% to 5.7%. Interest on the Series XX Bonds is payable on each July 1 and January 1.

Maturities of the Power Revenue Refunding Bonds Series YY issued during fiscal year 2010 range from July 1, 2037 to July 1, 2040. The Series YY Bonds bear a coupon rate of 6.1%. Interest on the Series YY Bonds is payable quarterly on each July 1, October 1, January 1 and April 1.

Maturities of the Power Revenue Refunding Bonds Series ZZ issued during fiscal year 2010 range from July 1, 2011 to July 1, 2028. The Series ZZ Bonds bear fixed interest rates ranging from 2.0% to 5.2%. Interest on the Series ZZ Bonds is payable on each July 1 and January 1.

Maturities of the Power Revenue Refunding Bonds Series AAA issued during fiscal year 2010 range from July 1, 2021 to July 1, 2031. The Series AAA Bonds bear a fixed interest rate of 5.25%. Interest on the Series AAA Bonds is payable on each July 1 and January 1.

Maturity of the Power Revenue Bonds Series BBB issued during fiscal year 2010 is July 1, 2028. The Series BBB Bonds bear fixed interest rate of 5.4%. Interest on the Series BBB Bonds is payable quarterly on each July 1, October 1, January 1 and April 1.

Maturities of the Power Revenue Bonds Series CCC issued during fiscal year 2010 range from July 1, 2021 to July 1, 2028. The Series CCC Bonds bear fixed interest rates ranging from 4.3% to 5.3%. Interest on the Series CCC Bonds is payable on each July 1 and January 1.

11. Long-Term Debt (continued)

Power Revenue Bonds Payable (continued)

The Authority has issued Power Revenue Bonds pursuant to the 1974 Agreement principally for the purpose of financing the cost of improvements; as such term is defined in the 1974 Agreement, and subject to the conditions and limitations set forth therein.

In the 1974 Agreement, the Authority covenants to fix, charge, and collect rates so that revenues will be sufficient to pay current expenses and to provide the greater of (i) the required deposits or transfers under the Sinking Fund, the 1974 Self-insurance Fund and the Reserve Maintenance Fund or (ii) 120% of the aggregate principal and interest requirements for the next fiscal year on account of all outstanding Power Revenue Bonds.

Gross revenues, exclusive of income on certain investments, less current expenses as defined in the Agreement have been pledged to repay Power Revenue Bonds principal and interest.

Bond Anticipation Notes

Bond anticipation notes (BANs) are used primarily to provide interim construction financing and are usually retired with the proceeds of long-term debt.

11. Long-Term Debt (continued)

Interest-Rate Swap Agreements

To protect against the potential of rising interest rates, the Authority entered into quarterly separate pay-fixed, receive-variable interest-rate swaps at a cost anticipated to be less than what the Authority would have paid to issue fixed-rate debt.

On June 30, 2011 and 2010, the Authority had the following derivative instruments outstanding: (in thousands)

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
A	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	$ 25,525	5/3/2007	7/1/2017	Pay 4.014%; receive 5Y SIFMA	Aa1/AA-
B	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	17,000	5/3/2007	7/1/2018	Pay 4.054%; receive 5Y SIFMA	Aa1/AA-
C	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	29,055	5/3/2007	7/1/2020	Pay 4.124%; receive 5Y SIFMA	Aa1/AA-
D	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	14,570	5/3/2007	7/1/2025	Pay 4.232%; receive 67% 3M LIBOR + 0.68%	Aa1/AA-
E	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	169,532	5/3/2007	7/1/2029	Pay 4.08%; receive 67% 3M LIBOR + 0.52%	Aa1/AA-
F	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	72,800	5/3/2007	7/1/2031	Pay 4.286%; receive 67% 3M LIBOR + 0.70%	Aa1/AA-
G	Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the Series UU Bonds	83,343	5/3/2007	7/1/2029	Pay 4.08%; receive 67% 3M LIBOR + 0.52%	Aa3/A+
H	Basis Swap	Hedges tax risk on underlying fixed rate bonds (various) and provides expected positive cash flow accrual	1,375,000	7/1/2008	7/1/2037	Pay SIFMA; receive 62% 3M LIBOR + 0.29% + 0.4669%	A1/A
	Total		$1,786,825				

Derivative instruments A through G hedge changes in cash flows of the underlying bonds – floating rate notes with coupons based on 5y SIFMA or 67% of 3m LIBOR index, and maturities equal to the maturities of the corresponding swaps. As such they are considered hedging derivative instruments. The total fair value of these instruments as of June 30, 2011 is ($52.3) million.

11. Long-Term Debt (continued)

Interest-Rate Swap Agreements (continued)

The following tables include fiscal year 2011 and 2010 summary information for the Authority's effective hedges related to the outstanding swap agreements.

	Changes in Fair Value			Fair Value at June 30, 2011				
Instrument Type	Classification		Amount	Classification		Amount		Notional
Interest Rate Swap	Deferred Outflows	$	11,811	Fair value of derivative instruments	$	(52,286)	$	411,825
Basis Swap	Deferred Outflows		28,985	Fair value of derivative instruments		(16,856)		1,375,000
	Total	$	40,796		$	(69,142)	$	1,786,825

	Changes in Fair Value			Fair Value at June 30, 2010				
Instrement Type	Classification		Amount	Classification		Amount		Notional
Interest Rate Swap	Deferred Outflows	$	(21,556)	Fair value of derivative instruments	$	(64,097)	$	411,825
Basis Swap	Deferred Outflows	$	15,506	Fair value of derivative instruments		(45,841)		1,375,000
	Total	$	(6,050)		$	(109,938)	$	1,786,825

The terms, fair values and credit ratings of the outstanding interest-rate swaps as of June 30, 2011, were as follows (in thousands) (excludes basis swap):

Associated Power Revenue Bonds	Notional Amount	Effective Date	Maturity Date	Fixed Rate	Fair Value 2011	Fair Value 2010
LIBOR Bonds, Series UU	$ 169,532	3-May-07	1-Jul-29	4.080%	**$ (23,814)**	$ (29,278)
LIBOR Bonds, Series UU	14,570	3-May-07	1-Jul-25	4.232%	**(1,962)**	(2,294)
LIBOR Bonds, Series UU	72,800	3-May-07	1-Jul-31	4.286%	**(10,703)**	(13,311)
LIBOR Bonds, Series UU	83,343	3-May-07	1-Jul-29	4.080%	**(11,857)**	(14,463)
Muni-BMS Bonds, Series UU	25,525	3-May-07	1-Jul-17	4.014%	**(1,407)**	(1,619)
Muni-BMS Bonds, Series UU	17,000	3-May-07	1-Jul-18	4.054%	**(945)**	(1,121)
Muni-BMS Bonds, Series UU	29,055	3-May-07	1-Jul-20	4.124%	**(1,597)**	(2,010)
Total	$ 411,825				**$ (52,285)**	$ (64,096)

The notional amounts of the swaps match the principal amounts of the associated Power Revenue Bonds.

During fiscal years 2010-2011 and 2009-2010, the payments of fixed rate interest from the Authority exceeded the amount received as variable interest rate from swap counter parties by $13.0 million and $23.4 million, respectively.

11. Long-Term Debt (continued)

Interest-Rate Swap Agreements (continued)

Using rates as of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term. These debt service requirements are included in the scheduled maturities of long-term debt disclosed further on this note. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Principal	Interest	Interest-Rate Swap, Net	Total
		(In thousands)		
2012	$ –	$ 4,008	$ 12,958	$ 16,966
2013	–	4,008	12,958	16,966
2014	–	4,008	12,958	16,966
2015	–	4,008	12,958	16,966
2016	–	4,008	12,958	16,966
2017-2032	411,825	38,245	155,428	605,498
Total	$ 411,825	$ 58,285	$ 220,218	$ 690,328

As of June 30, 2011 and 2010, the swaps had a negative fair value of approximately $52.3 million and $64.1 million, respectively. The negative fair value of the swaps may be countered by reduction in future net interest payments required on the variable-rate Power Revenue Bonds, creating higher synthetic rates.

As of June 30, 2011 and 2010, the Authority was not exposed to credit risk because the swaps had a negative fair value in the amount of the swaps' fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swaps counterparties were rated Aa1 and Aa3 as issued by Moody's Investor Services (Moody's), AA- and A+ by Standard & Poors (S&P), and AA- and A+ by Fitch Ratings.

The derivative contract uses the International Swaps and Derivatives Association, Inc. master agreement, which includes standard termination events, such as failure to pay bankruptcy. The Authority or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contracts. Also, the swaps may be terminated by the Authority if the counterparties' credit quality rating falls below Baa1 as issued by Moody's or BBB+ as determined by S&P. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

11. Long-Term Debt (continued)

Basis Swap Agreement

In March 2008 (with effective date of July 1, 2008), the Authority entered into a basis swap agreement in the notional amount of $1,375 million with an amortization schedule matching certain maturities of the Authority's outstanding power revenue and revenue refunding bonds issued in various years from 2027 to 2037 (the 2008 basis swap). Under the terms of a master swap agreement, the Authority receives from its counterparty (Goldman Sachs Capital Markets, L.P., an affiliate of Goldman, Sachs & Co.) quarterly, commencing on October 1, 2008, a floating amount applied to said notional amount at a rate equal to 62% of the taxable London Inter-Bank Offering Rate (LIBOR) index reset each week plus 29 basis points (hundredths of a percent) and a fixed rate payment of 0.4669% per annum (the "basis annuity"), quarterly for the term of swap in return for quarterly payments by the Authority, commencing also on October 1, 2008, on such notional amount at a rate based on the Securities Industry and Financial Markets Association (SIFMA) municipal swap index.

The basis swap hedges the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates. Because of the tax-exemption, tax-exempt bonds trade at yields lower than taxable yields. The percent at which tax-exempt yields trade relative to taxable yields (UST or LIBOR) is referred to as MMD ratios or muni bond ratios.

In order to assess effectiveness of the basis swap as a hedge, the Authority ran a regression of SIFMA ratios (as an independent variable) and MMD ratios (as dependent variable), adjusting to the specific circumstances. The result showed a high correlation. The method used can be qualified as Other Quantitative Method.

Because the MMD ratios and SIFMA ratios reflected respectively the change in the relative value of the tax-exempt rates to taxables in the bond market and the SIFMA swap market, the Authority concluded that the regression showed that the SIFMA swap could effectively hedge the bond's value attributable to basis risk between tax-exempt and taxables and, therefore, the basis swap was considered an effective hedge instrument under GASB 53.

11. Long-Term Debt (continued)

Basis Swap Agreement (continued)

By using derivative financial instruments to hedge the exposure to changes in interest rates, the Authority exposes itself to credit risk, market-access risk and basis risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Authority, which creates a credit risk for the Authority. When the fair value of the derivative contract is negative, the Authority owes to the counterparty and, therefore, does not pose credit risk to the Authority. The Authority minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is acceptable under the investment policies of the Authority and of Government Development Bank for Puerto Rico (GDB), its fiscal agent.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with an interest rate swap contract is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The Authority assesses market risk by continually identifying and monitoring changes in interest rate exposures that may adversely affect expected interest rate swap contract cash flows and evaluating other hedging opportunities. The Authority and GDB maintain risk management control systems to monitor interest rate cash flow risk attributable to both the Authority's outstanding or forecasted debt obligations as well as the Authority's offsetting hedge positions.

Basis risk arises when different indices are used in connection with a derivative instrument such as an interest rate swap contract. The 2009 basis swap exposes the Authority to basis risk should the relationship between LIBOR and the SIFMA municipal swap index converge. If a change occurs that results in the relationship moving to convergence, the expected financial benefits may not be realized. The Authority assesses basis risk by following the aforementioned market risks control system.

11. Long-Term Debt (continued)

Basis Swap Agreement (continued)

During the fiscal years 2010-2011 and 2009-2010, the Authority received from its counterparty $9.6 million and $9.5 million, respectively. The following table shows the cash flow benefit of the basis annuity in exchange for the Authority taking tax and other basis risks tied to the change in the relationship between LIBOR and the SIFMA municipal swap index.

	2010-2011	2009-2010
	(In thousands)	
Basis annuity received	$ 6,420	$ 6,420
LIBOR index amounts received	6,685	6,919
SIFMA index amounts paid	(3,499)	(3,832)
Net amount received	$ 9,606	$ 9,507

As of June 30, 2011 and 2010, the 2009 basis swap had a negative fair value to the Authority of approximately $16.9 million and $45.8 million, respectively. The negative fair value of the basis swap may be viewed as a reduction in future benefits to be received from the counterparty.

According to the Credit Support Annex of the Master Swap Agreement, if the fair value of the 2009 basis swap is negative and exceeds the threshold amount, the Authority shall post eligible collateral on the next business day upon notification from its counterparty. During fiscal year 2009-2010 the threshold amount for the Authority was $50 million. The Authority and GDB entered into an agreement for a $150 million revolving line of credit to meet collateral posting requirements from the 2009 basis swap. As of June 30, 2011 and 2010, there was no balance outstanding on the line of credit.

As of June 30, 2011 and 2010, negative fair values of the derivative instruments are $69.1 million and $109.9 respectively.

11. Long-Term Debt (continued)

Scheduled Maturities of Long-Term Debt

The scheduled maturities of long-term debt with interest thereon at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
		(In thousands)	
2012	$ 554,579	$ 230,279	$ 785,038
2013	210,363	368,658	579,021
2014	215,605	359,058	574,663
2015	215,252	348,826	564,078
2016	226,332	337,717	564,049
2017-2021	1,317,863	1,503,221	2,820,904
2022-2026	1,678,252	1,139,998	2,818,250
2025-2031	1,549,020	714,983	2,264,003
2032-2036	938,015	399,554	1,337,569
2037-2041	1,103,345	132,977	1,236,322
Total	8,008,626	5,535,271	3,543,897
Less:			
Unamortized discount and premium	203,787	–	203,787
Excess reacquisition costs	(123,425)	–	(123,425)
Interest	–	(5,535,271)	(5,535,271)
Total long-term debt	8,088,988	–	8,088,988
Current portion of notes payable	(193,700)	–	(193,700)
Current portion, net of discount and excess reacquisition costs of bonds	(358,552)	–	(358,552)
Total current portion	(552,252)	–	(552,252)
Long-term debt, excluding current portion	$ 7,536,736	$ –	$ 7,536,736

12. Employees' Retirement Benefits

Pension Plan

Plan Description

All of the Authority's permanent full-time employees are eligible to participate in the Authority's Pension Plan, a single employer defined benefit pension plan (the Plan) administered by the Employees' Retirement System of the Puerto Rico Electric Power Authority (the System). The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement System of the Puerto Rico Electric Power Authority, PO Box 13978, San Juan, Puerto Rico 00908-3978.

Benefits include maximum retirement benefits of 75% of average basic salary (based on the three highest annual basic salaries) for employees with 30 years of service; also, reduced benefits are available upon early retirement. The Plan was amended on February 9, 1993 to provide revised benefits to new employees limiting the maximum retirement basic salary to $50,000. The plan was further amended in January 1, 2000 to provide improved retirement benefits to employees with 25 years or more of credited service. Disability and death benefits are also provided. Separation benefits fully vest upon reaching 10 years of credited service.

If a member's employment is terminated before he becomes eligible for any other benefits under this Plan, he shall receive a refund of his member contribution plus interest compounded annually. The Plan is not subject to the requirements of the Employees Retirement Income Security Act of 1974 (ERISA).

Funding Policy and Annual Pension Cost

The contribution requirements of plan members and the Authority are established and may be amended by the Authority. The Annual Pension Cost (APC) and the Annual Required Contribution (ARC) were computed as part of an actuarial valuation performed as of June 30, 2010 and projected to June 30, 2011, based on current year demographic data.

12. Employees' Retirement Benefits (continued)

The Authority's annual pension cost for the year ended June 30, 2011 and related information for the Plan and supplemental benefits follows:

	Pension Plan
Contribution rates:	
Authority	23.80%
Plan members	10.05%
Annual pension cost (thousands)	$85,447
Contributions made and accruals (thousands)	$85,180
Actuarial valuation date	6/30/2009
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, closed (4% payroll increases per year)
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return (net of administrative expenses)*	8.5%
Projected salary increases*	4.10% – 5.40% depending on age
*Includes inflation at	3.0%
Cost-of-living adjustments	8% per year for yearly pension up to $3,600 and 4% per year for yearly pension between $3,600 and $7,200, 2% per year for yearly pension in excess of $7,200. The minimum adjustment is $300 per year. The maximum is $600 per year.

12. Employees' Retirement Benefits (continued)

Supplemental Benefits not Funded Through the System (continued)

Trend Information
(In millions)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Pension Plan:			
06/30/03	$50.6	100%	$ 0.0
06/30/04	65.0	81%	12.3
06/30/05	69.9	100%	12.6
06/30/06	74.8	100%	12.9
06/30/07	74.6	100%	13.2
06/30/08	76.3	100%	13.5
06/30/09	78.6	100%	13.8
06/30/10	75.9	100%	14.1
06/30/11	85.4	100%	14.4

The annual required contribution amounted to $85.4 million and $75.9 million in 2011 and 2010, respectively. The net pension obligation is included in accounts payable and accrued liabilities on the balance sheet.

Supplemental Benefits not Funded Through the System

Supplemental benefits were unfunded and such benefits were reimbursed to the System when paid up to December 31, 1999. Effective January 1, 2000, the Board of Trustees of the System approved the transfer of the obligation for supplemental benefits provided by the Authority and not funded through the System (supplemental pension obligations exchanged for forfeited sick leave benefits and the supplemental spousal survivor benefits) to the Retirement System. Also, the Board of Trustees of the System accepted an amortization period for the Plan of 40 years, which commenced on June 30, 1996.

12. Employees' Retirement Benefits (continued)

Supplemental Benefits not Funded Through the System (continued)

Supplemental Pension Obligations Exchanged for Forfeited Sick Leave Benefits

The Authority's employees with over 20 years of service are entitled to exchange accrued sick leave for supplemental pension benefits and/or be paid in cash the value of such sick leave upon separation from employment.

Other Post-Employment Benefits (OPEB)

Postemployment Health Plan

Plan Description – PREPA Retired Employees Healthcare Plan (Health Plan) is a single-employer defined contribution benefit healthcare plan administered by the Authority. During the fiscal year 2009-2010, the Authority adopted a resolution to change the Health Plan. The Health Plan for all retirees will be capped at $300 per member per month for retirees and spouses under age 65 and $200 per member per month for retirees and spouses age 65 and over.

Membership – During the fiscal year 2009-2010, the Health Plan changed to require all new retired employees on or after September 1, 2009, to have 30 year of services to receive health benefits. Certain retired employees on or after September 1, 2009, all retired employees before September 1, 2009, their legal spouses, and certain disabled dependents are eligible to participate in the Postretirement Health Plan. To remain eligible for participation, Medicare eligible retired participants and their spouses must enroll in Medicare Part B at age 65, or whenever eligible, at their own expenses. The benefit provisions to retired employees are established and may be amended by the Authority.

12. Employees' Retirement Benefits (continued)

Other Post-Employment Benefits (OPEB) (continued)

Funding Policy and Annual OPEB Cost – The required contribution is based on projected pay-as-you-go financing requirements. The contribution requirements of plan members and the Authority are established and may be amended by the Authority.

The Annual OPEB Cost is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the fiscal year 2010-2011 and 2009-2010 (in thousands):

	2011	**2010**
Annual OPEB cost	**$ 27,376**	$ 27,482
Actuarial Accrued Liability (AAL)	**$612,674**	$ 586,886
Unfunded AAL	**$612,674**	$ 586,886
Funded Ratio	**0%**	0%
Annual Covered Payroll	**$357,405**	$ 362,893

The net OPEB obligation change is as follows (in thousands):

	2011	**2010**
Change in net OPEB obligation:		
Net OPEB obligation, beginning balance	**$ 118,331**	$ 134,176
Total annual required contribution (ARC), July 1–June 30	**26,587**	26,587
Interest on Net OPEB obligation	**4,733**	5,367
Adjustments to annual required contribution	**(3,944)**	(4,472)
Actual benefit payments, July 1–June 30	**(22,091)**	(43,327)
Net OPEB obligation, ending balance	**$ 123,616**	$ 118,331

For the fiscal years ended June 30, 2011 and 2010, the Authority's annual OPEB expense was $27.4 million and $27.5 million, respectively. This expense is included in Administrative and General Expenses.

12. Employees' Retirement Benefits (continued)

Other Post-Employment Benefits (OPEB) (continued)

Postemployment Health Plan (continued)

The OPEB expense is not equal to the Annual Required Contribution, which is $26.6 million. The OPEB expense is considered in operating expenses in the Authority's Statement of Revenues, Expenses and Changes in Net Assets. The actual payment to the health plan for retirees and their beneficiaries, which totaled $22.1 million, is included in Administrative and General Expenses.

For the fiscal year ended June 30, 2010, the Authority's annual OPEB expense of $27.5 million. The OPEB expense is considered in operating expenses in the Authority's Statement of Revenues, Expenses and Changes in Net Assets. The payment to the health plan for retirees and their beneficiaries, which totaled $43.3 million for fiscal year 2010, is included in Administrative and General Expenses.

The Authority's annual OPEB cost, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Trend Information
(In millions)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/09	$25.6	316%	$ 134.2
06/30/10	27.5	158%	118.3
06/30/11	27.4	81%	123.6

12. Employees' Retirement Benefits (continued)

Other Post-Employment Benefits (OPEB) (continued)

Postemployment Health Plan (continued)

OPEB Actuarial Valuation – The Authority's other Post-Employment Benefits Program actuarial valuation was conducted by Cavanaugh Macdonald Consulting, LLC. Cavanaugh Macdonald Consulting, LLC is a member of the American Academy of Actuaries. The valuation was performed in accordance with GASB Statement No. 45 requirements.

Actuarial Methods and Assumptions:

Actuarial Valuation Date	July 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization method	Level Percent of Pay, Open
Remaining Amortization Period	30 years
Actuarial Assets Valuation Method	Market Value of Assets
Investment Rate of Return	4% (includes inflation rate)
Inflation Rate:	3%
Medical	Not applicable
Prescription drug	Not applicable
Dental	Not applicable
Projected Salary Increases	4%

The required schedule of funding progress, included supplementary information (Schedule I) that presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

13. Revenues from Major Clients and Related Parties

Electric operating revenues from major clients and related parties are as follows:

	2011	2010
	(In thousands)	
Governmental sector, principally instrumentalities, agencies and corporations of the Commonwealth of Puerto Rico	**$ 534,323**	$ 497,697
Municipalities of the Commonwealth of Puerto Rico	**212,462**	196,490
	$ 746,785	$ 694,187

14. Net Assets

Restricted assets at June 30, 2011 and 2010 include $77.6 million and $136.1 million, respectively, which have been appropriated principally to comply with long-term principal and interest debt services requirements and a reserve for damaged or destroyed property of the Authority not fully covered by insurance as required by the 1974 Agreement. Funds set aside for self-insurance purposes are deposited in the Self-Insurance Fund held by the Trustee (see Note 5).

As of June 30, 2011, the Authority is in a net deficit position. The Authority faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession, the volatility in oil prices, and the fact that the Authority has not increased rates to its customers at sufficient levels to offset the effects of its rising costs. Its principal challenges, some of which are interrelated, are: (i) addressing the decline in electric energy sales; (ii) addressing the volatility of oil costs; (iii) addressing high customer electric power rates; (iv) reducing government accounts receivables; and (v) improving its liquidity. The Authority is committed to take all necessary measures to ensure it achieves a healthy financial condition.

15. Claim for Extra Fuel Expense

The Authority expects insurance companies to cover higher fuel price and other costs associated with alternate generation capacity in connection with two fires on the Authority's generating units. In years preceding and up to June 30, 2011, there were $339 million in claims to insurance companies due to these fires. $301 million has been collected up to June 30, 2011 and $38 million was outstanding as of June 30, 2011. During the year ended June 30, 2011, there were no additional claims related to extra fuel expense. During fiscal year June 30, 2010, the Authority received $17 million of the outstanding amount. No additional moneys were received during fiscal year ended June 30, 2011.

16. Contribution in Lieu of Taxes

	2011	2010
	(In thousands)	
Municipalities	**$ 212,462**	$ 196,490
Commonwealth:		0
Hotels	**7,449**	6,316
Fuel adjustment subsidy	**26,847**	29,625
	$ 246,758	$ 232,431

17. Commitments and Contingencies

Environmental Matters

Facilities and operations of the Authority are subject to regulation under numerous Federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPA), Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others.

In February 1992, the Environmental Protection Agency (EPA) conducted a multimedia inspection of the Authority's facilities and identified several alleged instances of non-compliance related to the Authority's air, water and oil spill prevention control and countermeasures compliance programs.

17. Commitments and Contingencies (continued)

Environmental Matters (continued)

The Authority and the EPA undertook negotiations to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. As a result of the negotiations, the Authority and the EPA reached an agreement that resulted in a consent decree (the Consent Decree) approved by the United States federal court in March 1999. Under the terms and conditions of the Consent Decree, the Authority paid a civil penalty of $1.5 million, and implemented additional compliance projects amounting $4.5 million. In addition, the Consent Decree requires that the Authority improves and implements compliance programs and operations in order to assure compliance with environmental laws and regulations.

In 2004, the United States federal court approved a modification to the Consent Decree agreed by the Authority and the EPA under which the Authority reduced, in two steps, the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur and Aguirre power plants (to 0.75% or less by March 1, 2005 and to 0.5% or less by March 1, 2007), and used No. 6 fuel oil with sulfur content of not more than 0.5% through July 18, 2009 at its Palo Seco and San Juan power plants. Additionally, the Authority has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. The Authority also paid a $300,000 civil fine and reserved $200,000 to fund certain supplemental environmental projects and programs under the Consent Decree.

PREPA has audited the Consent Decree programs and a considerable number of them can be closed since their requirements have been completed. The programs can be closed under a Stipulation of Partial Termination filed jointly, in federal court, with the Environmental Protection Agency.

Since September 2004, there has been no legal action in the United States federal court or any administrative proceeding against the Authority regarding the Consent Decree or its modification. The Consent Decree includes stipulated penalties for certain events of non-compliance. Non compliance events must be disclosed to EPA in the corresponding report. Ordinarily, when a covered non compliance event occurs, the Authority pays the stipulated penalty in advance in order to benefit from a 50% discount of the applicable stipulated penalty.

17. Commitments and Contingencies (continued)

Environmental Matters (continued)

Other Proceedings

In 1997, as a result of an inspection carried out by the EPA and the Puerto Rico Environmental Quality Board (the EQB) at the Authority's Palo Seco power plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco power plant and the Palo Seco General Warehouse (Depot). The Administrative Order required the Authority to carry out a Remedial Investigation/Feasibility Study (RI/FS). The RI/FS required under the order is designed to: (1) determine the nature and extent of contamination and any threat to the public health, welfare or environmental caused by any release or threatened release of hazardous substances, pollutants, or contaminants at or from the site; and (2) determine and evaluate alternatives for the remediation or control of the release or threatened release of hazardous substances, pollutants, or contaminants at or from the site. The RI/FS is still in progress. The RI was completed and a final report was submitted to EPA for evaluation. PREPA is waiting for EPA's evaluation.

The information gathered under the RI reflected the presence of free product (Separate Phase Hydrocarbons) in several monitoring wells. The analysis of this product also reflected a low concentration of polychlorinated biphenyls (PCBs). PREPA and EPA entered into an Administrative Order on Consent (CERCLA-02-2008-2022) requiring the Authority to complete a removal plan that consists of determining if the underground water has been impacted by PCBs, the extension of the contamination and the implementation of a work plan for free product removal. Analytical data collected during this activity reflected that underground water has not been impacted by PCBs. Nevertheless, water/oil mix has been found in seven monitoring wells (MWs). PCBs concentrations between 1.36-2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis. After several MPE, this activity was discontinued as USEPA's recommendations. MWs gauging readings were performed during these activities. The last MW gauging readings reflected the presence of oil/water mix in nine MW's. Three of these wells are located off-site. This situation represents an environmental threat since the wells are located near the ocean. USEPA request the take actions to avoid the environmental threat. PREPA proposed the installation of LNAPL Barrier wall which prevent further off-site migration of LNAPL and include long term/passive recovery of the LNAPL. The

17. Commitments and Contingencies (continued)

Environmental Matters (continued)

Other Proceedings (continued)

cost of the wall barrier installation is around $1,000,000. As part of the USEPA/PREPA meetings regarding RI/FS and AOC, USEPA is considered that RI/FS will be completed as a no action ROD with some institutional controls and the AOC will be closed with the installation of the barrier wall. USEPA will notify PREPA with the final decision after discussion with other USEPA Region 2 personnel.

The remaining costs to achieve compliance have been estimated at $1,500,000. Both Orders also establishes a Reimbursement of Costs condition in which the Authority agrees to reimburse EPA for all costs incurred by EPA in connection to the site. No bill has been received by the Authority, as of this date.

The Record of Decision (ROD) was published as scheduled by EPA on September 30, 2011. Alternative No. 2, Removal with On-Site Consolidation and Cover in the Non-Residential Area, was selected. From this point on, EPA resumed negotiations with the Potential Responsible Parties (PRP's), both private and public, towards signing a Consent Decree through which the PRP's would contribute enough funds to cover the costs of the remedial action and the maintenance of the site. PREPA has already approved a contribution of $1,000,000 through Resolution 3804, April 1, 2011. Notwithstanding, through further negotiations an additional contribution of $300,000 was required by EPA. This contribution will be considered by PREPA's Governing Board in the upcoming weeks. Once approved PREPA should be able to finalize the negotiations and execute the Consent Decree, subject to the ability of the other public PRP's to do the same. Once this CD is executed no further disbursements are foreseeable, but for the noncompliance of other PRP's.

17. Commitments and Contingencies (continued)

Environmental Matters (continued)

Other Proceedings (continued)

In 2002, the Authority received a "Special Notice Concerning Remedial Investigation/Feasibility Study for Soil at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified the Authority and six other entities as "potentially responsible parties", as defined in the CERCLA. In 2003, the Authority agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for an RI/FS, with the understanding that such agreement did not constitute an acceptance of responsibility. Under the AOC, the Authority committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by the Authority and the other designated potentially responsible parties. On July 2010, a proposed Plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3, 2010 to discuss the alternatives to address soil contamination. A Record of Decision (ROD) by EPA is scheduled for the end of September 2010 in which a determination of the selected alternative will be made.

In 2004, the EPA filed a complaint against the Authority regarding an alleged Resource Conservation and Recovery Act (RCRA) violation at its Aguirre power plant related to an oil sheen observed during an EPA inspection in 2000. The Authority filed an answer to the complaint disputing the allegations. The Authority paid a $67,000 penalty and carried out certain activities at the Aguirre power plant designed to prevent future, similar violations.

In December 2004, the EPA sent a request for information to the Authority and to other potentially responsible parties that did business with certain recycling companies regarding the release of pollutants by these recycling in a Toa Baja superfund site. The EPA has stated that is particularly interested in entities that disposed of batteries at this site. The Authority has responded to the request for information, stating that it only sold scrap metal to these recycling companies. The Authority does not believe it has any liability regarding this site. At this time, we have no knowledge that the EPA has initiated, or intends to initiate any action against the Authority concerning this matter.

17. Commitments and Contingencies (continued)

Compliance Programs

The Authority continues to develop and implement a comprehensive program to improve environmental compliance in all applicable environmental media. This program has been and continues to be updated to conform to new regulatory requirements.

Air Quality Compliance

In general, the Authority is consistently maintaining a 99% or better level of compliance with in-stack opacity requirements. The Authority continues to use No. 6 fuel oil with a sulphur content equal to or less than 0.50% in all its power plants which should contribute maintain air quality. These are requirements under the Consent Decree as modified in June 2004. This modification allows for Palo Seco Power Plant to use fuel with sulfur content other than 0.50% provided that it issues a public notification (in a general circulation newspaper) and directly notifies the group Comunidades Unidas Contra la Contaminacion.

QA/QC Continuous Monitoring Program

This program requires quarterly audits to the opacity monitors to insure compliance with the Consent Decree Clean Air Compliance Program. All quarterly reports have been performed and submitted in compliance with the Consent Decree stipulations.

Relative Accuray Test Audit (RATA)

A Relative Accuracy Test Audit (RATA) is a test to validate and certify for a period of one year the plant's Continuous Emission Monitoring Systems (CEMS) equipment for purposes of continuous data collection. The requirements to perform this test are found at 40 CFR Part 60 Appendix F and is to insure compliance with the Plants PDS air operation permits. Annually reports have been performed and submitted in compliance with the air operation permits requirements.

17. Commitments and Contingencies (continued)

Compliance Programs (continued)

Title V Permitting Program

PREPA is still awaiting issuance of a Title V Permit for the Palo Seco Power Plant. The permit application was submitted in November 1996.

PREPA is also awaiting issuance of a Title V for the San Juan Power Plant. A modification was submitted to include the natural gas scenario for units 5 and 6.

In September 2011, PREPA submitted a modification of the Costa Sur Power Plant's Title V permit to include the natural gas scenario for units 5 and 6.

The Title V permit for the Aguirre Power Complex expires in February 2013, but a permit renewal application will be submitted in February 2012.

PREPA is awaiting issuance of the Title V permit for the Cambalache Plant.

The Title V Permit for the Vega Baja, Daguao and Jobos gas turbines were issued by the Environmental Quality Board. PREPA is still awaiting permits for the Mayaguez and Yabucoa turbines.

Also, the Costa Sur Power Plants units 5 and 6 have been converted to burn natural gas and should start using the fuel by May 2012.

This program requires operational permits for PREPA's units. During the year 2009, the permit renewal applications for the gas turbines facilities located at Daguao, Vega Baja, and Jobos were submitted in compliance with the Clean Air Title V Program stipulations. On May 14, 2010, the EQB issued a final permit for the Daguao gas turbines.

17. Commitments and Contingencies (continued)

Compliance Programs (continued)

Water Quality Compliance

As of December 2010, the Authority had achieved a level of compliance with the Clean Water Act regulations (NPDES permits, Drinking Water Program, OPA'90 (FRP's and Operations Manual) and SPCC Regulation) in excess of 99%.

The Authority has completed compliance plans for abating water pollution at its four major power plants - Aguirre, San Juan, South Coast, and Palo Seco, as required by the Consent Decree, Section VI, Part I.

PREPA prepared and submitted the San Juan Power Plant NDPES Renewal Application on September 30, 2011. In compliance with the regulatory requirement, this established to submit it 180 days before the current NDPES Permit expiration date (March 31, 2012).

Since 1977, PREPA submitted to EPA an updated request under Section 316(a) of the Clean Water Act that its South Coast power plant be permitted to discharge into the Caribbean Sea heated sea water that was previously used as for cooling purposes, as part of the plant's combustion and generation process, known as "thermal effluent". EPA denied a 316(a) Thermal Varinace Request in December 2000. After several discussions and meetings, EPA and PREPA agreed to perform a Detailed Engineering and Environmental Review (DEER) of alternatives to select a final alternative for the cooling water discharge that meets the water temperature standard or otherwise, qualify for a waiver request under Section 316(a) of the Water Quality Act. While the DEER was in progress EPA issued a draft permit for the power plant, which included a compliance schedule for the DEER selected alternative (Offshore Submerged Discharge – OSD). The selected alternative estimated capital cost is approximately $60 million. EPA issued a final permit in October 1, 2009 with a schedule of compliance for relocation of Outfall 001. PREPA submitted the scoping document, an inventory of the environmental studies already performed and a Joint Permit Application for the Outfall 001 relocation in December 2009. As part of the permit requirements, PREPA prepared a Preliminary Environmental Impact Statement (PEIS) including the discussions of four alternatives for the 001 Outfall by October 2011. The PEIS included an in-cove alternative to reduce the cooling water discharge temperature to a thermal tolerance temperature range based on operations improvements and partial restoration of the historic flow.

17. Commitments and Contingencies (continued)

Compliance Programs (continued)

Water Quality Compliance (continued)

EPA included, as part of Section 316 (a) requirements in the current San Juan Power Plant NPDES Permit, the performance of thermal plume studies and the biological monitoring program. PREPA submitted the thermal plume study plan and the QA/QC Plan for the Biological Monitoring Program in March 13, 2009, and it is waiting for EPA approvals. Also, EPA included, as another compliance requirement, the performance of a Comprehensive Demonstration Study (CDS) under the Section 316(b) of the Clean Water Act. On March 31, 2008, PREPA submitted an Impingement and Entrainment Characterization Study and Current Status Report for EPA evaluation. Also, PREPA submitted a Post-repowering Verification Study Work Plan for 316 (b) in June 30, 2008 and it is waiting for EPA approval.

Underground Injection Control Regulation

The Authority has prepared a compliance plan in order to comply with the Puerto Rico Environmental Quality Board's underground injection control regulations. The compliance plan contemplates the closing of septic systems where sanitary discharges can be connected to the facilities of the Puerto Rico Aqueduct and Sewer Authority. As of December 2010, the projects at San Juan, Aguirre, Palo Seco, and South Coast Power Plants for the connection of the sanitary discharges to the PRASA system were 100% completed. Consequently, the execution of the compliance plans for the closing of the septic tanks at the power plants is on-going. Currently, PREPA completed the sampling and analysis of the septic systems at Aguirre and San Juan. The sampling and analysis for the Palo Seco Power Plant septic system is 50% completed.

17. Commitments and Contingencies (continued)

Compliance Programs (continued)

Spill Prevention Control and Countermeasures Plan

To meet its obligations under the Spill Prevention Control and Countermeasures (SPCC), a program under the Oil Pollution Act of 1990 plan requirements and the Consent Decree, the Authority continues to implement corrective measures at all of its facilities. As of December 2010, the Authority completed all the compliance projects under the Spill Prevention Maintenance and Construction Program of the Consent Decree in accordance with the established scope of work. In July of 2002, an amendment to the SPCC regulations was adopted that affects the Authority's oil filled equipment at its electrical transmission and distribution substations. The Authority has been inspecting its substations and evaluating the impact of these new requirements for the preparation of the SPCC plan for the corresponding substations. EPA extended the regulatory deadline until November 10, 2011 to comply with the SPCC plans substations implementation. PREPA is already implementing the monitoring and inspection program required under the non-contention clause stipulated at 40 CFR 112.7 (k). Notwithstanding, PREPA is working with a construction program to provide the secondary containment for 54 substations located adjacent to water bodies, instead of the 316 substations considered at the initial plan. Current project estimated cost is $2.7 million.

CERCLA Compliance

The Remedial Investigation (RI)/Feasibility Study (FS) for the Palo Seco Power Plant were the result of a joint inspection performed by EPA and EQB in the decade of the 90's. This inspection determined that conditions existed that represented a risk to human health. Therefore, PREPA was ordered to perform a RI/FS. The RI was completed and the report was submitted to EPA for evaluation. PREPA is waiting for EPA's evaluation to determine if the FS has to be performed or a Record of Decision is issued which could indicate that no remedial actions or control is needed for the areas under study. However, the studies performed under the RI reflected the presence of free product (Separate Phase Hydrocarbons) in several monitoring wells. The analysis of this product also reflected a low concentration of polychlorinated biphenyls (PCBs). PREPA and EPA reached an agreement in which PREPA must complete a removal plan that consists of determining if the underground water has been impacted by PCBs, the extension of the contamination and the implementation of a work plan for free product removal. Analytical data collected during this activity reflected that underground water has not been impacted by PCBs.

17. Commitments and Contingencies (continued)

Compliance Programs (continued)

CERCLA Compliance (continued)

Nevertheless, water/oil mix has been found in seven monitoring wells (MWs). PCBs concentrations between 1.36 - 2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase Extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis in order to remove the oil. After several MPE, this activity was discontinued as USEPA's recommendations. MWs gauging readings were performed during these activities. The last MW gauging readings reflected the presences of oil/water mix in nine MW's three of these wells are located off-site. This situation represents an environmental threat since the wells are located near the ocean. USEPA request the take actions to avoid the environmental threat. PREPA prosed the installation of LNAPL Barrier wall which prevent further off-site migration of LNAPL and include long term/passive recovery of the LNAPL. The cost of the wall barrier installation is around $1,000,000. As part of the USEPA/PREPA meetings regarding RI/FS and AOC, USEPA is considered that RI/FS will be completed as a no action ROD with some institutional controls and the AOC will be closed with the installation of the barrier wall, USEPA will notify PREPA with the final decision after discussion with other USEPA Region 2 personnel.

The Remedial Investigation/Feasibility Study for the Vega Baja Solid Waste Superfund Site is schedule for completion by the summer of 2010.

PCB Program

The Authority has completed a ten-year EPA-mandated program to sample and test its oil-filled transformers and other equipment in order to identify and dispose of PCB contaminated equipment. Pursuant to this program, the Authority has completed the removal and disposal of transformers with PCB concentrations of more than 500 ppm. The Authority continues with the removal and disposal of transformers with PCB concentrations between 50 and 499 ppm. As March 2011, the Authority estimates that approximately 179 of these units remain to be disposed of. According to EPA, the Authority has been the only utility to go so far with a program sample, test, identify, remove, and dispose of PCB or PCB contaminated transformers.

17. Commitments and Contingencies (continued)

Compliance Programs (continued)

PCB Program (continued)

The Authority has completed a ten-year EPA-mandated program to sample and test its oil-filled transformers and other equipment in order to identify and dispose of transformers with more than 49 part per million (ppm) of PCBs. Pursuant to this program, the Authority has completed the removal and disposal of PCBs transformers with PCBs concentrations of more than 500 ppm. According to EPA, the Authority has been the only utility to go so far with a program to sample, test, identify, remove and dispose of PCBs or PCBs contaminated transformers. The Authority continues with the removal and disposal of transformers with PCB concentrations of between 50 and 499 ppm. The Authority updated the estimate of these units pending for disposal. As of June 30, 2011, the Authority had 36 PCBs contaminated transformers for disposal.

Capital Improvement Program

The Authority's capital improvement program for fiscal year ended June 30, 2011 includes $13.3 million in order to comply with existing Commonwealth and federal environmental laws and regulations, including the South Coast water related projects in compliance with the Clean Water Act 316(a) and 316(b) sections previously discussed. The Authority believes it is taking the necessary steps to comply with all applicable environmental laws and regulations and the Consent Decree requirements.

Changes in the balances of the health insurance program (self-insurance risk) incurred but no recorded (IBNR) during fiscal years 2011 and 2010 were as follows:

	Liability Beginning Balance	Expenses	Payments	Liability Ending Balance
		(In thousands)		
2010	$ 5,552	$ 114,179	$ 114,134	$ 5,597
2011	**$ 5,597**	**$ 95,921**	**$ 94,351**	**$ 7,167**

17. Commitments and Contingencies (continued)

Compliance Programs (continued)

Gasoducto del Sur

On January 10, 2008, the Authority and Skanska Energy Services, LLC (Skanska) entered into an Engineer Procure Construct Finance Contract for the construction of the Gasoducto del Sur Project (the Project) for an original Contract Price of $74,324,259. On December 2, 2008, the Superior Court of Ponce issued an injunction stopping all construction. On July 23, 2009, PREPA'S Governing Board authorized the termination and settlement of the Contract. The Authority obtained title to all equipment and material procured and 100% of engineering documents and all pending disputes were settled for a lump-sum payment of $59,000,000 due to the Contractor. The Termination and Settlement Agreement was executed on August 7, 2009. Pursuant to an Asset Purchase Agreement dated August 17, 2009, PREPA sold the assets of the Gasoducto del Sur Project to The Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA by its Spanish acronym) for approximately $36 million. In addition, PREPA entered into a Subordinated Loan Agreement with the Government Development Bank (GDB) for $35,000,000 evidenced by a 24-month subordinated note until such time that Puerto Rico Aqueduct and Sewer Authority (PRASA) shall purchase from AFICA the Project.

Contingencies

The Authority is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to the Authority, a provision has been made to cover the estimated liability. Management, based on discussions with legal counsel, believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on the Authority's financial position or results of operations.

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), the Authority's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with the Authority and filed a complaint for breach of contract. The Authority has moved for time to answer the complaint and has filed a counter claim for the cost of the project and for all damages caused to the Authority by the alleged illegal contract termination. The Authority believes that the actions by the contractor will not materially affect the ability of the Authority to provide service nor there will be a material difference in the quality of service provided by the Authority.

17. Commitments and Contingencies (continued)

Contingencies (continued)

In June 2004, the Office of the Comptroller of the Commonwealth of Puerto Rico (the Comptroller) issued a report stating that the Authority overcharged its clients by approximately $49.8 million, and should reimburse this amount to such clients. After this report was made public, two lawsuits were filed by clients of the Authority against the Authority demanding the reimbursement of such alleged overcharges. The Authority's position is that the Comptroller incorrectly based his conclusion on data that is not relevant to the calculation of the Authority's rates, and that the Authority's rates were properly established in the year 2000 in accordance with applicable laws and regulations. In particular, the Authority notes that its rates properly take into consideration the cost of the fuel used by the Authority's generating facilities and the cost of the electricity purchased from the two co-generating facilities that sell power to the Authority.

In 2008, Power Technologies Corp. filed a suit against the Authority, alleging that the Authority had withdrawn from a contracting process for a new energy facility, in which Power Technologies was involved, without explanation or justification. Power Technologies seeks damages of $51.4 million. The case is currently in the discovery stage.

In addition to these cases, the Authority is involved in typical litigation for an electric power utility, but management estimates the amounts of such claims are not material and will not affect adversely the Authority's operations.

Construction and Other Commitments

As of June 30, 2011, the Authority has commitments of approximately $105.1 million on active construction, maintenance and engineering services contracts.

18. Recently Issued Accounting Pronouncements

In December 2009, the GASB issued Statement 57 (GASB 57), *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 57 address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans and clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers. Provisions of this Statement related to the use and reporting of the alternative measurement method are effective immediately. The adoption of GASB 57 does not have any impact on the Authority's financial Statements.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity,* and the related financial reporting requirements of Statement No. 34, *Basis Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues have arisen since the issuance of those Statements. This statement is effective for periods beginning after June 15, 2012.

18. Recently Issued Accounting Pronouncements (continued)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. (i) Financial Accounting Standard Board (FASB) Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

GASB Statement No. 64, *Application of Hedge Accounting Termination Provisions*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

19. Restatement of 2010 Financial Statements

During the year ended June 30, 2011, management determined that its prior period capital contributions, plant in service, depreciation expense and accumulated depreciation were understated by the amounts disclosed below due to delays in the Authority's process for recognizing capital contributions in the form of property in its accounts.

The Authority had not been recording capital contribution projects that had been placed in service and had been certified as being part of the Authority's capital assets during previous fiscal years.

The effect of the restatement is as follows:

	As previously reported	Restatement	As restated
Plant in service	$ 10,304,310	$ 268,818	$ 10,573,128
Accumulated depreciation	(4,960,294)	(62,269)	(5,022,563)
Depreciation expense	(343,935)	(11,425)	(355,360)
Contributed capital	65,567	24,554	90,121
Change in net assets	$ (142,835)	$ 13,129	$ (129,706)
Net assets, beginning	39,219	193,420	232,639
Net assets, ending	$ (103,616)	$ 206,549	$ 102,933

20. Subsequent Events

Long-Term Debt

During the month of July 2011, the Authority entered into a revolving line of credit with Citibank amounting to $260 million to finance fuel purchases. This credit facility has an automatic reduction provision that will lower the balance to $210 million on March 30, 2012. This line of credit matures on July 13, 2012, and bears interest at a variable rate per annum equal to the sum of 90-day LIBOR Floating Pool Rate plus the applicable Spread of 1.70%.

Natural Disaster

On September 2011, Hurricane Irene struck Puerto Rico causing significant damages across the island and to PREPA infrastructure. As a result distribution, transmission and production components of the utility plant were seriously damaged. At this time the financial effect of the hurricane on the Authority's operations could not be determined; however, certain types of assets were insured and the Authority expects to collect all restoration costs from their insurances agencies. In addition the Authority will claim to the Federal Emergency Management Agency (FEMA) uninsured damages caused by the hurricane.

Non-revolving Line of Credit

During the Month of October 2011, the Authority entered into a non-revolving line of credit with the Government Development Bank (GDB) amounting to $244 million. This line of credit matures on June 30, 2012 and bears interest per annum equal to prime rate plus 150 basis points, as determined from time to time in good faith by GDB or upon written notice to the Authority, at a variable rate of interest per annum, which interest rate may be revised periodically, equal to the GDB cost of funding for variable rate loan transactions or the cost of any other obligations or source of funds used to fund the loan.

20. Subsequent Events (continued)

Rate Stabilization Account

During the month of November 2011, the Authority's Governing Board approved the creation of a Rate Stabilization Account ("RSA") which is going to be managed by the Authority and GDB. The Authority will make deposits to the RSA on a monthly basis from any moneys that are available after the payment of current expenses, principal and interest due, the funding of the required deposits to the Reserve Maintenance Fund, the Subordinate Obligations Fund, the Self Insurance Fund and the Capital Improvement Fund created by the Trust Agreement. Available amounts in the RSA can be used by the Authority with the approval of GDB to offset the application of a credit to consumers.

Act No. 233

On December 11, 2011, the Commonwealth of Puerto Rico approved Act No. 233 (the Act) amending Act No. 83 of May 2, 1941, also known as the Puerto Rico Electric and Power Authority Act. The Act modified the calculation of the Contribution in Lieu of Taxes (CILT) made by the Authority as described in Note 2. Energy used in municipal facilities for which the municipality receives rent or right of admission revenues will not be taken into consideration in the CILT calculation. The primary purpose of Act 233 is to give relief in energy costs to customers.

Required Supplementary Information

Schedule I

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Suplementary Schedule of Funding Progress

Years Ended June 30, 2011
(In millions)

Actuarial Valuation Date	Actuarial Value of Assets (a) Note 1	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL Percentage of Covered Payroll [(b)-(a)]/(c)
Pension Plan						
6/30/2005	$ 1,338	$ 2,203	$ 866	61%	$ 349	248%
6/30/2006	1,403	2,280	877	62%	349	251%
6/30/2007	1,488	2,313	826	64%	349	237%
6/30/2008	1,571	2,337	766	67%	363	211%
6/30/2009	1,517	2,497	980	61%	364	269%
6/30/2010	1,414	2,816	1,402	50%	357	392%
Postemployment Health Plan*						
6/30/2007	$ –	$ 531	$ 531	0%	$ 349	152%
6/30/2008	–	587	587	0%	363	162%
6/30/2010	–	613	613	0%	357	172%

Note 1: *The system, as permitted by the GASB, reflects its investments at an average fair market value of the last three years to determine its actuarial funding.*

**Postemployment Health Plan valuation performed every two years, as required by the GASB.*

Supplemental Schedules

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Note to Schedules II-VII - Information Required by the 1974 Agreement

As of June 30, 2011 and 2010, and for the Years then Ended

Schedules II - VII present certain information which is required by the 1974 Agreement. The Net Revenues data, as defined in the 1974 Agreement (Net Revenues), presented in Schedules II and III differ in some important respects from generally accepted accounting principles (GAAP). Such differences are explained below; Schedule II also presents a reconciliation of Net Revenues with GAAP.

The most significant differences between Net Revenues and GAAP are the following:

1) Revenues do not include investment income on investments in the construction fund (see Note 5 to the financial statements);
2) Depreciation and interest expense on bonds covered by the 1974 Agreement are not included as deductions in calculating Net Revenues;
3) Amortization of debt discount and issuance costs and the allowance for funds used during construction are not considered in the computation in calculating Net Revenues;
4) Contribution in lieu of taxes is not considered a deduction for purposes of Net Revenues;
5) Net Revenues do not include revenues or expenses of the Irrigation Systems (see Note 1 to the financial statements).

For further details and information on the definition of Net Revenues, please refer to the 1974 Agreement.

Schedule II

Puerto Rico Electric Power Authority

Sources and Disposition of Net Revenues
Under the Provisions of the 1974 Agreement
Statements of Income (GAAP)
and Reconciliation of Net Income

Years Ended June 30, 2011 and 2010
(In thousands)

	2011			2010		
	1974 Trust Agreement	**Statement of Income (GAAP)**	**Reconciliation of Net Income**	**1974 Trust Agreement**	**Statement of Income (GAAP)** *(As restated)*	**Reconciliation of Net Income**
Reconciliation of components of net income:						
Revenues:						
Operating revenues	$ 4,406,155	$ 4,422,997		$ 4,154,415	$ 4,171,493	
Revenues from Commonwealth for rural electrification	–	–		–	–	
Other operating revenues	16,595	16,595		15,915	15,915	
Other	(11,537)	(13,299)		(4,597)	(5,450)	
1974 agreement construction fund investment income and gain on sale of other properties		14,368			90,816	
	4,411,213	4,440,661	29,448	4,165,733	4,272,774	107,041
Current Expenses:						
As shown	3,705,192	3,718,796		3,429,095	3,441,449	
Other interest		–			1,907	
Total as defined	3,705,192	3,718,796	(13,604)	3,429,095	3,443,356	(14,261)
Net revenues, as defined	$ 706,021			$ 736,638		
Depreciation		350,697	(350,697)		355,360	(355,360)
Other post-employment benefit (OPEB)		26,587	(26,587)		26,587	(26,587)
Disposition of Revenues:						
(not classified in order of payment)						
Interest on debt	304,778	378,343		246,072	304,614	
Interest on general obligation notes	1,550	1,882		33,985	34,279	
Amortization of debt discount, financing expenses	–	(10,162)		–	(7,590)	
Amortization of bond defeasance	–	16,659		–	21,871	
Allowance for funds used during construction	–	(16,471)		–	(8,428)	
Net interest on long-term debt	306,328	370,251	(63,923)	280,057	344,746	(64,689)
Power revenue bonds:						
Principal	175,455		175,455	151,507		151,507
Reserve Account	–		–	–		–
Internal Funds	17,231		17,231	63,405		63,405
Appropriation Self Insurance Fund	10,000		10,000	10,000		10,000
Contribution in lieu of taxes	197,007	246,758	(49,751)	231,669	232,431	(762)
Other post-employment benefit (OPEB):						
Total expenses (GAAP)		4,713,089			4,402,480	
Net revenues, as defined	$ 706,021			$ 736,638		
Net income		$ (272,428)	$ (272,428)		$ (129,706)	$ (129,706)

Schedule III

Puerto Rico Electric Power Authority

Suplemental Schedule of Sources and Disposition
of Net Revenues under the Provisions of the 1974 Agreement

Years Ended June 30, 2011 and 2010
(In thousands)

	2011	2010
Sources of Net Revenues:		
Revenues:		
Electric revenues	**$ 4,406,155**	$ 4,154,415
Other operating revenues	**16,595**	15,915
Other (principally interest)	**(11,537)**	(4,597)
	4,411,213	4,165,733
Current Expenses:		
Operations:		
Fuel	**2,291,386**	2,006,931
Purchased Power	**660,871**	693,724
Other productions	**67,451**	62,697
Transmissions and distributions	**176,369**	160,796
Customer accounting and collection	**114,837**	114,542
Administrative and general	**173,503**	178,982
Maintenance	**220,775**	209,516
Interest (other than long-term debt)	**–**	1,907
	3,705,192	3,429,095
Net revenues, as defined	**$ 706,021**	$ 736,638
Disposition of Net Revenues:		
Revenue fund:		
Power revenue bonds - sinking fund requirements:		
Interest	**$ 304,778**	$ 246,072
Principal	**175,455**	151,507
Self Insurance Fund	**10,000**	10,000
Balance available for capital improvements and other needs	**17,231**	63,405
	507,464	470,984
General obligation notes:		
Interest	**1,550**	33,985
Contribution in lieu of taxes and other	**197,007**	231,669
Net revenues, as defined	**$ 706,021**	$ 736,638

Schedule IV

Puerto Rico Electric Power Authority

Supplemental Schedule of Funds Under the Provisions of the 1974 Trust Agreement

Years Ended June 30, 2011 and 2010
(In thousands)

	2011				2010			
		Held by Authority	Restricted Deposits with Trustee			Held by Authority	Restricted Deposits with Trustee	
	Total	Other Assets	Other Assets	Non-Current Assets	Total	Other Assets	Other Assets	Non-Current Assets
By Account:								
1974 Agreement (restricted)								
Sinking Fund - principal and interest	$ 313,531	$ –	$ 313,531	$ –	$ 198,693	$ –	$ 198,693	$ –
Reserve account	377,903	–	–	377,903	359,714	–	–	359,714
Self Insurance Fund	84,645	–	–	84,645	73,782	–	–	73,782
Sinking Fund - Capitalized Interest	153,958	–	–	153,958	–	–	–	–
Reserve Maintenance Fund	15,692	15,692	–	–	10,640	10,640	–	–
Other Restricted Fund	1,900	1,900	–	–	1,900	1,900	–	–
Construction Fund								
Rural Utilities Services (RUS)	2,020	2,020	–	–	2,018	2,018	–	–
Other	224,332	224,332	–	–	148,308	148,308	–	–
PREPA Client Fund	500	500	–	–	–	–	–	–
General purpose (unrestricted)								
General (excluding Prepa Net)	48,863	48,863	–	–	67,662	67,662	–	–
Working funds	911	911	–	–	922	922	–	–
Total	$ 1,224,255	$ 294,218	$ 313,531	$ 616,506	$ 863,639	$ 231,450	$ 198,693	$ 433,496
By Type of Assets Held:								
Working funds	$ 911	$ 911	$ –	$ –	$ 922	$ 922	$ –	$ –
PREPA Client Fund	500	500	–	–	–	–	–	–
Cash in bank and time deposits (by depository institutions):								
Government Development Bank for Puerto Rico	11	11	–	–	125	125	–	–
Banco Popular de Puerto Rico	8,210	8,210	–	–	4,263	4,263	–	–
Citibank, N. A.	40,551	40,551	–	–	178,305	178,305	–	–
US Bank	528,009	214,478	313,531	–	198,693	–	198,693	–
Banco Bilbao Vizcaya (Chase), Puerto Rico	5,845	5,845	–	–	29,051	29,051	–	–
Banco Bilbao Vizcaya, Mayagüez, Puerto Rico	73	73	–	–	25	25	–	–
First Bank, San Juan, Puerto Rico	337	337	–	–	562	562	–	–
Banco Santander, Santurce, Puerto Rico	3,545	3,545	–	–	3,545	3,545	–	–
R G Premier Bank	145	145	–	–	202	202	–	–
Western Bank, Mayagüez, P.R.		–	–	–	(108)	(108)	–	–
JP Morgan		–	–	–	–	–	–	–
Other Institutions	1,099	1,099	–	–	1,097	1,097	–	–
	589,236	275,705	313,531	–	416,682	217,989	198,693	–
Investment Securities	635,019	18,513	–	616,506	446,957	13,461	–	433,496
Total	$ 1,224,255	$ 294,218	$ 313,531	$ 616,506	$ 863,639	$ 231,450	$ 198,693	$ 433,496

Schedule V
Part A

Puerto Rico Electric Power Authority

Supplemental Schedule of Changes in Cash and Investments by Funds

Year Ended June 30, 2011
(In thousands)

2010-2011 Activity	Total	General Purposes Funds: General Fund	General Purposes Funds: Revenue Fund	General Purposes Funds: Working Fund	General Purposes Funds: 1974 Agreement
Balances at June 30, 2010, *before interfund account*	$ 863,638	$ 278,889	$ 16	$ 922	$ 198,693
Operations:					
Net revenues	–	(706,021)	197,007	–	304,778
Funds provided from internal operations	449,477	449,477	–	–	–
1974 Agreement investment income Acct 4191	–	(811)	–	–	–
Investment income and other	1,115	59	–	–	(7,835)
Unrealized gain (or loss) on market value of investment	(2,222)	–	–	–	212
Offset of current year's contribution in lieu	–	–	–	–	–
of taxes against certain government accounts	–	–	–	–	–
receivable	–	158,193	(158,193)	–	–
Offset of current year's 5% contribution in lieu of	–	–	–	–	–
taxes against Commonwealth of Puerto	–	–	–	–	–
Rico debt and transfers to General Obligations	–	38,814	(38,814)	–	–
Funds used for construction	(411,527)	–	–	–	–
Reclassified construction costs for deferred debits	–	–	–	–	–
Financing:	–	–	–	–	–
Proceeds from new bond issues-net of	–	–	–	–	–
original discounts	299,016	–	–	–	284,466
Proceeds from Contributed Capital	6,064	–	–	–	–
Proceeds from refunding bonds issues-net of					–
original discounts	222,883	–	–	–	–
Defeased bonds-net of original discounts	(200,173)	–	–	–	–
Sinking Funds and account transfers	–	(5,000)	–	–	–
Notes issued for construction	50,750	–	–	–	–
Notes issued for municipalities settlement agreement	–	–	–	–	–
Notes issued to working capital	172,062	172,062	–	–	–
Note issued to finance the adquisition on fuel oil	–	–	–	–	–
Notes issued to finance the recovery of Palo Seco Steam Plant that are payable from proceeds from insurace companies.	–	–	–	–	–
Payment of notes payable	(86,119)	(36,119)	–	–	–
Payment of interest	(240,874)	(28,286)	–	–	(209,287)
Payment to counterparties - Interest Rate Swap	–	–	–	–	–
Payment of current maturities of long-term debt	–	–	–	–	–
Payment to municipalities settlement agreement	–	–	–	–	–
Changes in assets and liabilities:					
Working funds	(11)	–	–	(11)	–
Accounts receivable (includes non-current)	(212,541)	(212,541)	–	–	–
Fuel oil	(42,714)	(42,714)	–	–	–
Materials and supplies	(17,738)	(17,738)	–	–	–
Prepayments and other	3,448	3,448	–	–	–
Deferred debits	47,522	47,522	–	–	–
Accounts payable and accrued liabilities (includes non-current)	321,205	318,181	–	–	–
Customer deposits	994	994	–	–	–
Interfund transfers, etc.	–	(26,999)	(2)	–	(278,993)
Total before interfund accounts	1,224,255	391,410	14	911	292,034
Add (deduct) Interfund accounts	–	(342,561)	–	–	–
Balances at June 30, 2011	$ 1,224,255	$ 48,849	$ 14	$ 911	$ 292,034

Schedule V (continued)
Part A

Sinking Fund			Other Funds			
1974 Agreement	1974 Agreement	Insurance Fund	1974 Agreement	Maintenace Fund	Obligation Fund	Restricted Fund
$ –	$ 359,713	$ 73,782	$ (60,917)	$ 10,640	$ –	$ 1,900
175,455	–	10,000	17,231	–	1,550	–
–	–	–	–	–	–	–
–	–	–	811	–	–	–
–	6,459	926	1,403	103	–	–
–	(2,318)	(63)	–	(53)	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	(411,527)	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	14,050	–	–	–	–	500
–	–	–	6,064	–	–	–
–	–	–	–	–	–	–
–	–	–	222,883	–	–	–
–	–	–	(200,173)	–	–	–
–	–	–	–	5,000	–	–
–	–	–	50,750	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	(50,000)	–	–	–
–	–	–	–	–	(3,301)	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	3,024	–	–	–
–	–	–	–	–	–	–
–	(1)	–	304,242	2	1,751	–
175,455	377,903	84,645	(116,209)	15,692	–	2,400
			342,561		–	–
$ 175,455	$ 377,903	$ 84,645	$ 226,352	$ 15,692	$ –	$ 2,400

Schedule V
Part B

Puerto Rico Electric Power Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Supplemental Schedule of Changes in Cash and Investments by Funds

Year Ended June 30, 2010
(In thousands)

		General Purposes Funds			
2009-2010 Activity	**Total**	**General Fund**	**Revenue Fund**	**Working Fund**	**Interest 1974 Agreement**
Balances at June 30, 2009, *before interfund account*	$ 723,666	$ 166,198	$ 16	$ 1,048	$ 137,585
Operations:					
Net revenues	–	(736,638)	231,669	–	246,072
Funds provided from internal operations	492,377	492,377	–	–	–
1974 Agreement investment income Acct 4191	–	(695)		–	–
Investment income and other	18,233	7,059	–	–	292
Unrealized gain (or loss) on market value of investment	564	–	–	–	–
Offset of current year's contribution in lieu of taxes against certain government accounts receivable	–	190,352	(190,352)	–	–
Offset of current year's 5% contribution in lieu of taxes against Commonwealth of Puerto Rico debt and transfers to General Obligations	–	41,317	(41,317)	–	–
Funds used for construction	(389,167)	–	–	–	–
Reclassified construction costs for deferred debits	(8,416)	(8,416)	–	–	–
Financing:					
Proceeds from new bond issues-net of original discounts	427,102	–	–	–	180,435
Proceeds from Contributed Capital	14,408	–	–	–	–
Proceeds from refunding bonds issues-net of original discounts	939,646	–	–	–	–
Defeased bonds-net of original discounts	(924,361)	–	–	–	–
Sinking Funds and account transfers	–	(5,000)	–	–	8,390
Notes issued for construction	186,610	–	–	–	–
Notes issued for municipalities settlement agreement	–	–	–	–	–
Notes issued to working capital	38,364	38,364	–	–	–
Note issued to finance the adquisition on fuel oil	–	–	–	–	–
Notes issued to finance the recovery of Palo Seco Steam Plant that are payable from proceeds from insurace companies	–	–	–	–	–
Payment of notes payable	(48,093)	(48,093)	–	–	–
Payment of interest	(381,029)	(16,937)	–	–	(327,553)
Payment to counterparties - Interest Rate Swap	(25,948)	(25,948)	–	–	–
Payment of current maturities of long-term debt	(324,147)	–	–	–	–
Payment to municipalities settlement agreement	–	–	–	–	–
Changes in assets and liabilities:					
Working funds	(126)	–		(126)	–
Accounts receivable (includes non-current)	(17,982)	(17,982)	–	–	–
Fuel oil	36,961	36,961	–	–	–
Materials and supplies	17,792	17,792	–	–	–
Prepayments and other	(3,278)	(3,278)	–	–	–
Deferred debits	(17,493)	(17,493)	–	–	–
Accounts payable and accrued liabilities (includes non-current)	103,162	126,780	–	–	–
Customer deposits	4,793	4,793	–	–	–
Interfund transfers, etc.	–	37,376	–	–	(46,528)
Total before interfund accounts	863,638	278,889	16	922	198,693
Add (deduct) Interfund accounts	–	(211,243)			
Balances at June 30, 2010	$ 863,638	$ 67,646	$ 16	$ 922	$ 198,693

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Schedule V (continued)
Part B

Sinking Fund			Other Funds			
Principal 1974 Agreement	Reserve 1974 Agreement	Self Insurance Fund	Construction 1974 Agreement	Reserve Maintenace Fund	Subordinated Obligation Fund	Other Restricted Fund
$ 166,895	$ 267,001	$ 62,624	$ (85,684)	$ 5,573	$ –	$ 2,410
151,507	–	10,000	63,405	–	33,985	–
–	–	–	–	–	–	–
–	–	–	695	–	–	–
450	8,904	1,292	202	34	–	–
–	668	(136)	–	32	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	(389,167)	–	–	–
–	–	–	–	–	–	–
–	83,140	–	163,527	–	–	–
–	–	–	14,408	–	–	–
–	–	–	939,646	–	–	–
–	–	–	(924,361)	–	–	–
			(8,390)	5,000		
–	–	–	186,610	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	(36,539)	–
–	–	–	–	–	–	–
(324,147)	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–		–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	(23,618)	–	–	–
–	–	–	–	–	–	–
5,295		2	1,810	1	2,554	(510)
–	359,713	73,782	(60,917)	10,640	–	1,900
			211,243		–	–
$ –	$ 359,713	$ 73,782	$ 150,326	$ 10,640	$ –	$ 1,900